THE Freeman

IDEAS ON LIBERTY

MARCH 1959

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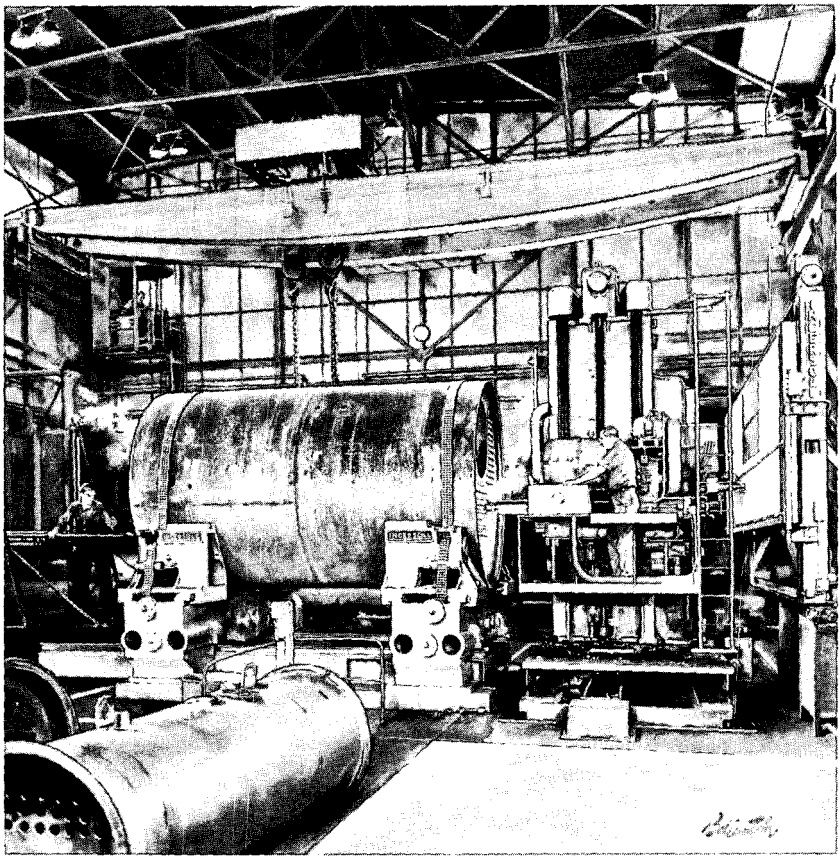

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No. 5 in a series

"...private enterprise cannot hope to compete (as to charges) with the parcel post."

The Freight Forwarders Institute told a Senate Post office sub-committee in 1958 that increasing the size and weight limits for parcel post would be "a step in the wrong direction in that it would increase the area of competition between the Government-ally operated parcel post system and the hard-pressed common carrier system of the country."

The Institute is the national organization representing freight forwarders, subject to regulation under the Interstate Commerce Act, who "handle only less-than-carload and less-than-truckload shipments, sometimes referred to as merchandise or package freight."

One of the purposes of the Transportation Act of 1958, the Institute noted, "is to check or prevent further erosion of the common carrier system by persons who escape regulation." An increase in parcel post limits, the Institute said, "would permit erosion of common carrier service by Governmentally owned and subsidized service."

The Senate subcommittee was told that "common carriers operated by private enterprise cannot hope to compete, in the matter of charges, with the parcel post service . . .

"It ought to be pointed out," the statement continued, "that costs, as used in constructing parcel post rates, are not the same thing as costs that underlie common carrier rates. There are many items of cost that are not taken into account in fixing parcel post rates . . .

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LEONARD E. READ *President,* Foundation for Economic Education

PAUL L. POIROT *Managing Editor*

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The Declaration of Independence

AGAINST ITSELF

Exploring an ambiguity in the basic document of American political thought

EDMUND A. OPITZ

DURING the nineteenth century the world of the defeated and the oppressed looked to America as a land of liberty and justice for all. In large numbers people came here to find freedom for themselves and their children. It goes without saying that they didn't always find what they were seeking; reality, here as everywhere, fell short of the professed ideal. But even when the ideal failed to show through the practice, it was never wholly without influence; for this ideal was inscribed in a basic national document for all to see and many to memorize. The document contains a dangerous ambiguity, to be discussed later, which eventually drained away its main strength. But until that happened the Declaration of Independence was a beacon of liberty.

The actual writing of the Declaration was Jefferson's work, but his purpose as drafter was not, he wrote, "to find out new principles, or new arguments . . . but to place before mankind the common sense of the subject." The document was intended, he said, "to be an expression of the American mind." And indeed it was. The basic political ideas embodied in the Declaration – inherent natural rights and consent of the governed – have a long ancestry and were the common coin of eighteenth century political discussion. Nevertheless, Jefferson must be credited with the originality of phrasing and composition which gave a creative thrust to ideas which, till that time, had lacked momentum.

This momentum carried over into the next century as well. Abraham Lincoln spoke for the consensus when he declared, "The principles of Jefferson are the definitions and axioms of a free

The Reverend Mr. Opitz is a member of the staff of the Foundation for Economic Education.

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society." Many American reformers and social critics expressed similar sentiments. They were sensitive to social ills and injustices, but they traced them to infractions of the principles laid down in the Declaration – inherent, individual rights, and a limited government set up solely for their protection. Freedom was the remedy they advocated, and they knew that somebody's freedom was being impaired the moment government exceeded its proper limits. The first reform, on which all others hinged, was to confine government within the boundaries defined in the Declaration. Only so could the rights of all persons be secured.

God-given Rights

The Declaration of Independence refers, in paragraph one, to "the laws of Nature and Nature's God." In paragraph two, the signers say that, as far as they are concerned, they believe, or accept as axiomatic, the proposition that the Creator endowed men with certain rights. Other men might hold that "rights" are granted by the State, or else have a purely naturalistic basis. "We hold" that these rights have a supranatural derivation, i.e., they are God-given. The Creator is sovereign! In other words, our Declaration has a built-in religious dimension; and the importance of this fact is underscored by the absence of a similar dimension from a comparable document issued in 1789 – the French Declaration of the Rights of Man and of Citizens.

The French Declaration wishing to set forth "these natural, imprescriptable, and unalienable rights" says: "The National Assembly doth recognize and declare, in the presence of the Supreme Being, and with the hope of His blessings and favor, the following sacred rights of men and of citizens." It will be noted that, although the Supreme Being is mentioned, he is invoked as a mere gesture of formality; he is not acknowledged as the source of human rights. What then is this source, according to the French Declaration? Paragraph three tells us. "The nation is essentially the source of all sovereignty; nor can any individual, or any body of men, be entitled to any authority which is not derived from it." The French and American Revolutions are, in short, based on contrary principles.

The Early Days of the Republic

The philosophy back of the Constitution of the United States is substantially the same natural rights doctrine that is set forth in our Declaration. And social critics in the early Republic, ac-

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cepting this doctrine, traced social evils to the door of government; because it was government which either legitimized violations of equal liberty – as in the case of slavery – or sanctioned violations by refusing to enforce the laws against predation. The remedy they urged was to cut government back to the limits prescribed in the Declaration – defense of the lives and property of all men alike.

But if this was our ideal, it must be admitted that our practice was different, even from the beginning. We set up a no-privilege government – equality before the law, no politically dispensed special favors for some at the expense of others – and the first law of the First Congress (after the motion organizing itself as a body) was a tariff law!

Political Favors

Now, whatever else may be said about a tariff, no one can deny that it has the effect of penalizing certain consumer interests, and by the same token advantaging certain producer interests. It denies to some people the right to buy in the markets of their choice, i.e., to make any peaceful use they choose of their resources. And to others this political intervention grants a monopoly of certain markets by excluding foreign competition, thus forcing customers to pay a price above the market price which free and fair competition would determine. In short, a tariff enables its beneficiaries to get something for nothing; it is a political subvention giving some people an income for which no equivalent services are rendered.

A political principle may be adduced from such practice: It is one function of government to intervene in the affairs of men so as to benefit a segment of the nation at the expense of the nation as a whole, or to sacrifice a portion of the people so that another portion may prosper. This was not the kind of government we thought we were setting up, and although government intervention steadily proliferated during the nineteenth century – the necessity for each succeeding intervention being sold as a means of correcting the evils caused by prior interventions – we could still think of ours as "a government of liberty and justice for all," i.e., a government shorn of the power to dispense privilege.

Finding an Excuse

As an ideal we still looked to the equal rights doctrine of the Declaration, and this doctrine filtered down through popular oratory and literature. Granted that we didn't practice what we preached, at least we had a plumb-

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line of sound principle by which we could measure our deviation from the norm. But there came a time when we acquiesced in deviations from the norm and cast about for a political principle to justify them. When we took this tack, such a principle was easy to find because it was enshrined in the Declaration itself, as a technique, along with the natural rights philosophy. It was the consent of the governed idea.

Consent of the Governed

The "consent of the governed" idea is an implementing principle, not a primary one. Deriving the just powers of a government "from the consent of the governed," as the Declaration does, is a natural means of implementing the "self-evident" truths "that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness." This is the primary principle, the axiom about rights. But when these truths are no longer self-evident, when the belief in God-given rights dies out, leaving "consent of the governed" as the sole political expedient, the road ahead leads to tyranny. The tyranny will not conform to the pattern of a divine right monarchy or an enlightened despotism which needs a different sanctioning principle; it will be a democratic tyranny.

"Consent of the governed" introduces the majoritarian principle into politics. However useful this may be as a device for choosing personnel, it is vicious when it expands into the delusion that the majority has competence in the realms of faith and morals, and has therefore a right to rule unrestrained except by prudential and expedient considerations. This delusion is crassly put by a University of Chicago political scientist: "For in a democracy right is what the majority makes it to be." Consent of the governed, without the restraining influence exerted by the belief in God-given rights, which disappeared as religion lost its hold on the modern mind, has led logically, directly, and implacably to totalitarianism and the so-called People's Democracies.

A Democratic Despotism

Democratic despotism is the inevitable consequence of the "consent of the governed" idea – unless it be accompanied by a virile doctrine of rights which derives them from a source beyond society. From the classical world to the time of our Declaration of Independence, this source was God. But about the time the God concept found a meaningful polit-

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ical expression in the Declaration, the concept itself lost its hold on the minds of men. The relationship between the explicitly articulated concept of equal rights in the Declaration and the God concept was that of effect and cause. When a cause ceases to operate, trace effects or an afterimage may persist for a time; and in the modern world the idea of inherent rights moved men even after they had cut themselves adrift from its religious moorings. The eighteenth century denatured God and deified Nature; the nineteenth century mechanized Nature, and the twentieth century depersonalized man. If the universe and man correspond to such a picture, there is no place in it for anything resembling the traditional doctrine of rights.

Traditions of Civility

The poet, Coventry Patmore, observed that we are the inheritors of

> The fair sum of six thousand years
> Traditions of civility.

In the course of this long human experience of living together under relatively stable conditions there gradually evolved an awareness that man is more than a thing, that there is a dignity and grandeur in the human soul because it is a portion of the divine in man, coterminous with that aspect of the divine interpreted as the moral order or the Natural Law. To the extent that such beliefs took hold of ancient peoples they attempted to base their political structures on the explicit consent of those involved – "those involved" numbering less than the total population which included slaves and unassimilated foreigners. Conquest and subjugation do not supply a principle of rule; rule is always based on some degree of implicit consent. Consent, in a republic, is deliberately courted. Such was the case in the Hebrew commonwealth, in the Greek city-states, and in the Roman republic. It is even more true of Christendom which fell heir to these three strands of tradition. Christian doctrine, writes Wilhelm Roepke, "starts from man as an individual endowed with an immortal soul striving for its salvation. Before the State there is now the Person, whereas above the State there is God, His love and His justice common to all men."

The Divine Nature of Things

Judging by the record of history, man seems to have a natural tendency to seek a cosmic foundation for his social way of life; no culture of record has been wholly secular. Men posit a divine order of reality transcending the natural world which meets the senses.

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A relationship to this divine order gives added meaning and significance to the natural order, and the divine law furnishes the norms by which the different patterns of behavior in society are coordinated.

These moral norms, in other words, are believed to be anchored in the nature of things; they exist independently of men's interpretation of them, and neither individual persons nor majorities can flout them with impunity. This was the concept of the Natural Law, by virtue of which man was believed to possess inherent rights, as our Declaration of Independence explicitly states. Such a conviction kept the "consent of the governed" idea in a secondary spot.

The Crumbling Foundation

The Founding Fathers hung their case from a theological premise, although their own religious philosophies were anemic affairs and the eighteenth century ideology which they partly shared was not hospitable to theism. The colonists, however, were a theologically minded people, and the Church played an important part in their affairs. Thus they were easily appealed to with the idea that they were supernaturally endowed with inherent rights. It is one of the end products of the religious heritage of Christendom to claim natural rights for every human being as such, and to proclaim God's sovereignty over the social and political affairs of men. These religious beliefs are reflected in the Declaration. But withdraw these religious elements from the philosophy of the Declaration and we are in trouble. The concept of God-given rights goes when belief in God is suspended. This was happening even as the Declaration was being written; it has happened at an accelerated tempo since that time. It started as far back as Hobbes and Locke, in the middle and latter part of the seventeenth century.

There was a state of nature, Locke argued, of "peace, good will, mutual assistance, and preservation." Fully endowed human beings existed in this presocietal condition, each one possessing a natural right to protect himself and his property. After a rational weighing of the personal gains to be derived from living in civil society, individual men contracted with other individuals to form one, "by barely agreeing to unite into one political society, which is all the compact that is, or needs be."

As history, this is, of course, pure moonshine; men, by virtue of their genes, are biologically an-

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thropoids; it is only by assimilation of their social legacy that they become fully human and members of a particular society. But social contract theories, which linked the ideas of natural rights and consent, were useful fictions during the political revolutions of the seventeenth and eighteenth centuries which were aimed at monarchy, and Locke furnished much of the ammunition used by our Founding Fathers. All this was fine when it came to deposing the kings – the only kind of authoritarianism which seemed to frighten the men of those centuries. But if we depose the kings only to set up a more far-reaching tyranny – parliamentary absolutism or the despotism of a majority – where's the gain?

Locke Sowed the Seeds

Actually, the seeds of majoritarian democracy are in John Locke: "And thus every man, by consenting with others to make one body politic under one government, puts himself under an obligation to every one of that society, to *submit to the determination of the majority,* and to be concluded by it; or else this original compact, whereby he with others incorporates into one society, would signify nothing, and be no compact. . . . The body (of the community) should move that way the greater force carries it, which is the *consent of the majority.*" (Italics supplied)

Jefferson's Uncertain Stand

Jefferson himself blows hot and cold in these matters. No one talked more than he about "our natural rights," or was more aware than he of the potential tyranny in the "consent of the governed" idea when reduced to mere majority rule. "An elective despotism is not the government we fought for," he wrote in 1781. But in 1787 he wrote to Madison, "It is my principle that the will of the majority should always prevail." And a year later, also to Madison, "I readily suppose my opinion wrong, when opposed by the majority." It is this phase of his thought which enabled Lord Acton to speak of "Jefferson's determined aversion to every authority which could oppose or restrain the will of the sovereign people."

But in 1816 the tide came back in with the "natural rights" idea, and he wrote, "Our legislators . . . . true office is to declare and enforce only our natural rights and duties and to take none of them from us. . . . The idea is quite unfounded that on entering into society we give up any natural right." But then he veered

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again, and in 1824 said, "All power is inherent in the people." And in his last extant letter, written ten days before his death in 1826, when the idea of inherent rights had all but been abandoned by the learned, he affirmed his belief that "all eyes are opened, or opening, to the rights of man."

He was quite mistaken in this, even of his own country. Seven years earlier in the epoch-making Supreme Court decision in McCulloch *vs.* Maryland, John Marshall had written: "The government of the Union is emphatically and truly a government of the people. In form and in substance it emanates from them. Its powers are granted by them, and are to be exercised directly on them and for their benefit."

Jefferson may have been right in affirming that we didn't fight for an "elective despotism," but given the situation which existed in the eighteenth and nineteenth centuries, it is obvious to hindsight that that is what we were going to get. The tyranny of the majority is simply the unhindered application of the "consent of the governed" idea, with no restraining influence which might come from virile belief in Natural Law and inherent rights. Edwin Corwin writes that " 'Natural Law' in the sense of 'the observed order of phenomena' has tended in recent years to crowd the earlier rationalistic conception to the wall, thus aiding the triumph of the idea of human and governmental law as an expression solely of will backed by force."

Mill and Spencer

John Stuart Mill uttered many timeless truths about liberty on the basis of the utilitarian standard that liberty provides conditions conducive to the greatest happiness. But although his rhetoric was gorgeous, he didn't make his case. Who will decide which one of several alternative courses of action should be adopted so as to maximize happiness? Majority rule again! The decision is based on "the judgments of those who are qualified by knowledge of (the consequences), or, if they differ, that of the majority among them, must be admitted as final." And Herbert Spencer, who in his early writings defended the rights of man against the State, concluded somewhat sadly in his *Autobiography* (1904) that "the unlimited right of the majority to rule is probably as advanced a conception of freedom as can safely be entertained at present; if indeed, even that can safely be entertained."

"The unlimited right of the majority to rule" can, in practice, mean only one thing: that a de-

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termined and articulate few will create *ad hoc* majorities for the sole purpose of ratifying minority demands. Such is the inevitable end result of popular sovereignty, as Francis Lieber foresaw a century ago:

> Woe to the country in which political hypocrisy first calls the people almighty, then teaches that the voice of the people is divine, then pretends to take a mere clamor for the true voice of the people, and lastly gets up the desired clamor.

"Consent of the governed" was an altogether inept phrase in the Declaration, out of step with the main body of the American political vision. The dream was that if men knew the right principles of social integration, no one would be governed, i.e., the creature of another man's will. The society would be free, i.e., comprised of self-governing units whose social agency of arrest and restraint served individual liberty by maintaining the inherent rights of each person. But remove the idea of inherent rights and this structure collapses.

Majoritarian "Civil Rights"

When the idea of inherent rights is abandoned, people will still go on using the word "rights," after distorting its original meaning. On the one hand, "rights" will be used as if it were synonymous with "desires" or "privileges." Thus we are presented with long lists of "human rights" to such things as housing, education, medical care, a job, and so on. The source and dispenser of these "rights" is, of course, the sovereign state. On the other hand, the air is filled with talk about "civil rights," which means certain patterns of conduct permitted or enforced by the sovereign majority. The conduct in question may be ethically desirable, provided it is voluntary; but the majority has power, and is willing to use it on minorities. Members of minorities have no inherent rights, so of course they have no "civil rights" either until they join forces with the majority.

Inviolable Man

Can we recover the idea of inherent rights? Only if we can rehabilitate the belief that man is not wholly resolvable into a social being, that part of him is inviolable, shielded always from the prying hands of either majorities or rulers.

Two main lines of argument have been used to support this conviction, one religious, the other secular. According to the former, rights have a reference above and beyond society, in a transcendent order. The individual is a crea-

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ture of God and therefore he is sovereign as a person in relation to his fellows. When religious belief waned, and the concept of a transcendent order was abandoned, many thinkers sought support for the idea of "natural rights" in theories of an original social contract. Locke, for instance, thought he could deduce rights from the nature of abstract, ideal men who were imagined to have existed as isolates before they got together and formed themselves into societies.

Regaining Our Faith

These two approaches exhaust the field; abandon these and the idea of inherent rights is no more than a pious wish. And we have to abandon one of them, for social contract theories are no longer believable. This means that the preservation of the idea of inherent rights depends on a contemporary restatement of the ancient truth that "in the center of his being, in that knower who is never known, man is in touch with God and even in his most wretched wandering in the wilderness of this world, is always rooted in the eternal being of God." Sovereignty must locate in the Creator or liberty has no roots.

Americans, Lord Bryce observed last century, have "an aversion to the investigation of general principles as well as to trains of systematic reasoning." Perhaps it may be more accurate to say that Americans have been uncomfortable with the ambiguity in their own political heritage. They have an apprehension that something is wrong without being aware of just what it is. With one part of their being they have looked to the Creator as the source of their rights; with another part, they have lavishly abused those rights at the behest of now this majority, now that. The split in principles is becoming more painful, and soon the choice will have to be made to ride one or the other.

It is possible for a people to live without clear-cut principles for a time, sustained by the forces of habit, custom, and convention. A man may live according to his father's code, even after abandoning the faith which gave the father his code. But the grandson will have neither faith nor code. Such is, roughly, our predicament, and there is no guarantee that even a determined effort will get us out of it. But the first step in solving a problem is to face a bleak statement of it; for where there is no understanding, there can be no intelligent response. • • •

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A MORAL GOAL FOR BUSINESS

— the maximum possible profit over a long period

GAYLORD A. FREEMAN, JR.

IT SEEMS UNBELIEVABLE today that with our large industrial corporations, many with thousands of employees and hundreds of millions of dollars of capital, there could be any uncertainty as to the basic purpose of such organizations — yet there is.

What is the purpose of a business?

I was interested when the builder of one of the country's greatest corporations declared that the purpose of his company was service to its customers. I was interested but not convinced. I could not imagine that practical-minded leader commencing his annual report: "This has been our most successful year; we served an additional million customers. Incidentally, we lost $20 million, but we consider this our finest year."

I have listened to some of my more idealistic friends say that the purpose of a business corporation is, or should be, the common good of customers and employees. I have listened and been disturbed.

I was also impressed by reading in two recent publications of a management association the statements of the corporate goals of several of our leading businesses. The most frequently mentioned aims were:

1. Making the company a good place to work
2. Serving the customers well
3. Being good citizens, and, incidentally,
4. Making a profit

Although several mentioned profits, it was only as a necessary condition to the continuation of employment and service. Of those which considered profits as one of several goals, most referred to a "reasonable" or "fair" profit, or one "sufficient to finance our normal healthy growth," or provide "a fair return on investment," or "safeguard our investment in order to enable the company to attract new capital in order to expand its services." Many failed to make any reference to profits.

Yes, I was impressed by those

Mr. Freeman is Vice-president of The First National Bank of Chicago. This article is an excerpt from his address of October 15, 1958, before an Instalment Lending Conference sponsored by the Illinois Bankers Association at Peoria.

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statements of corporate goals – but still unconvinced. Do investors (the actual owners who risk their capital in organizing or purchasing the stock of a hazardous business) make such an investment in order to provide a nice place to work for some unknown employees, or to provide a good product to unknown customers, or to earn a return only sufficient to obtain additional capital from other investors?

The Profit Motive

I have talked to many business leaders, and to them I have expressed what seems to me to be the very obvious single goal of business. I have been told afterwards by some that I was wrong and by others that I was right but that I should have said it another way.

What I said is simply that the *only goal* of a business corporation is to make a *profit.*

Expressed more fully, this means: the only goal of a business corporation is to make the *maximum possible profit.*

And said completely: the only goal of a business corporation is to make the maximum possible profit *over a long period.*

Our economic and social system, whether referred to as a capitalistic system, or a system of private enterprise, or a system of free enterprise, is based upon the concept of competing units seeking maximum possible profits. We know that! Indeed, we have always known it; but, buffeted over the past twenty or thirty years by the philosophy of the "new deal" and its many offshoots, we now feel that to acknowledge such a goal is somehow immoral or at least selfish. We have lost confidence in the original bases of our economic system and feel that perhaps profits should be subordinated to some other goal that would be socially more acceptable, more moral, or somehow "higher." Some do this with their tongue in their cheek; some do it confusedly but honestly.

Are we so timorous that we will permit ourselves thus to be misled? Do we give up our known goals merely because someone criticizes them? The expenditure of effort for profit has done more good for our society than any other effort, except that expended directly for education. Yet because an articulate few imply that this is a selfish goal, are we to give up the compass that has led us so far and follow the will-o'-the-wisp they propose to substitute?

In the Long Run

If we said that short-range profits or immediate profits were our goal, then the morality of such a purpose might well be challenged. Maximum short-range profits, achieved at the expense of our em-

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ployees or of our customers or of our community, would not be a *proper* goal, for it would sacrifice the interest of others. But it would not be a *wise* policy either, for such a course, by injuring others on whom the company is dependent for future profits, reduces the opportunity for profits in subsequent years.

Maximum possible profit *over a long period* of time is neither moral nor immoral, but the effect is beneficial to the community. To achieve this end of maximum profits over a long period (of 100 years or more, and the life span of a corporation should be measured in no shorter periods) requires that we treat our employees in such a way that they are happy both at work and at home; that their minds are relieved of fear, that their working conditions are pleasant, and their status and contribution are respected. Without these conditions present, they cannot be as productive as they must be if a business is to achieve maximum long-range profits.

To achieve such a goal requires that we treat our customers well; that we provide the goods or services which they want at a price which they are willing to pay, and that they be delivered under satisfactory conditions.

A Just and Equitable Society

Beyond that, to achieve profits over a long period of time requires that business operate in a society that is just and equitable, for if the majority of the people are dissatisfied with the economic or political system, they will change that system. There is no divine guarantee of private ownership or the permissibility of profits. If business management wants to preserve a system of private property and the right to make profits, it should see to it that the rewards, the living conditions, the status and the dignity of our people – *all* of our people – are such that the great majority are happier in the "private property, profit system" than they believe they would be in any other system.

Thus to achieve maximum long-range profits, a corporation must treat its employees right, it must treat its customers right, and it must make a continuing contribution to society. It is therefore only in this indirect sense that the goal of business can be said to be social betterment. Its direct goal is properly maximum long-range profits, and to substitute any other for it is to fail to understand the essential nature of business or the society which it ultimately benefits.

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Ethics Is Personal

The lack of religious foundation for much of "the social Gospel"

WILLIAM HENRY CHAMBERLIN

THERE HAS BEEN a strong trend among some religious groups in the modern age to invoke religious sanctions for advocating secular decisions of policy and theories of social change, usually in the direction of socialism and collectivism. This trend, it may be noted, is in complete disregard of the spirit of all the great religions and ethical teachings. Common ground in the teachings of the Old and New Testament, of the Koran, of the Buddhist sacred writings, of moralists such as Marcus Aurelius, Epictetus, and Seneca, is that the relation of man to God and man's own ethical responsibilities is personal and unconnected with the political, social, and economic institutions of any given time. Ethics is deeply and unconditionally an individual concern.

A striking example of an attempt to give a religious coloration to a secular decision in the field of foreign policy was the recent action of the members of a World Order Study Conference, sponsored by the National Council of Churches of Christ, in passing a resolution calling for United States diplomatic recognition of the communist regime in control of mainland China and its admission to the United Nations. This proposal was prefaced by the sentence:

"With reference to China, Christians should urge reconsideration by our Government of its policy in regard to the People's Republic of China."

The clear suggestion here is that there is something un-Christian in the United States policy of refusing to open diplomatic relations with a bloody atheistic despotism which has never submitted its power to the verdict of a free election, which has subjected many Protestant and Catholic missionaries to cruel tortures, which is still technically in a state of war with the United Nations, which is responsible for the death

Mr. Chamberlin is the author of numerous books, a lecturer, and a contributor to the *Wall Street Journal* and many nationally known magazines.

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of many thousands of Americans in Korea and the savage maltreatment of thousands more who were unfortunate enough to be captured.

It is not surprising that Secretary of State John Foster Dulles, as good a churchman as any of the signatories of this resolution, was not impressed. What makes this episode still more puzzling is that the vote in favor of this resolution, which also included much more criticism of American than of communist policies, was adopted unanimously. Yet the Congress of the United States, a reasonably representative cross-section of the American people, has twice put itself on record by virtually unanimous votes against the recognition of Red China or its admission to the United Nations.

Great Expectations

The tie-up between purportedly religious agencies and advocates of radical social and economic change is also a familiar spectacle. A man who for many years was the leading spirit in a church "federation for social action" was a vehement, polemical apologist for the political and economic institutions of the Soviet Union.

This and other groups which uphold what they call "the social Gospel" proceed on the assumption that management is always wrong and trade unions are always right in labor disputes, that there is something inherently wrong and immoral in the capitalist – or individualist – economic system, that the realization of socialist aims is an obligation of the professing Christian.

But it is interesting to note that no great religious or moral teacher has set as his primary aim the changing of economic and social conditions according to a doctrinaire set pattern. The first aim of such teachers has always been the changing of men's hearts, minds, and souls. There can be no good society without good men. The cure for social evils is to train individuals to follow the path of righteousness.

Again and again enthusiastic leaders of revolutions have promised their followers a new heaven and a new earth as a result of substituting new institutions for old. Again and again these great expectations have been disappointed.

Jean Jacques Rousseau and some of the less remembered French intellectuals of the nineteenth century, whose thinking preceded the French Revolution and influenced its course, were convinced that man is nothing but a product of the laws of the State and that there was nothing a government could not accomplish in

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the forming of man; vice in society is not the result of corruption in human nature, but of defective laws.

The General Will

Side by side with this mechanical conception of man being made happy by the instruction of all-wise preceptors and the legislation of omniscient legislators went Rousseau's mystical notion of something he called "the general will," which must take precedence over all selfish individual wills and interests. This was an idea made to order for a band of dedicated fanatics like the Jacobins, who dominated the extreme phase of the French Revolution. Identifying the "general will" with their own, Robespierre and his associates condemned all dissent as counterrevolutionary and experienced no qualms of conscience about sending to the guillotine all who disagreed with them as counterrevolutionaries who were trying to lead the people astray.

Anticipating and perhaps inspiring Lenin with his theory of the "dictatorship of the proletariat" (which meant in practice the dictatorship of the Communist Party) Robespierre declared: "The Government of the Revolution is the despotism of liberty against tyranny."

This conception of a virtuous revolutionary elite minority bringing liberty and happiness to the people ran its bloody course and ended when Robespierre himself was overthrown and executed in July 1794.

But a very similar idea returned in a somewhat different economic setting when Lenin and his band of fanatical, disciplined communists swept into power in Russia amid the chaos and disintegration that overwhelmed Russia in 1917. The communists, more lucky or more skillful than their French Jacobin predecessors, maintained continuity of power, although Stalin's purges during the thirties were even more lethal than what happened to the more extreme Jacobins after Robespierre was guillotined.

Private Ownership Condemned

Communism added to the old idea of a revolutionary elite governing the people for their own good until the millennium, when the State is supposed to "wither away," the newer idea that private ownership of wealth is the root of all evil. Nationalize factories, mines, railways, stores, abolish private profit – so ran the theme song of Lenin, Trotsky, and their associates – and the sins and frailities of human nature will automatically disappear.

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But this promise has proved a mirage, like the promises of the Jacobin agitators of the French Revolution. In order to make the wheels of their economic machine turn, the communist rulers of the Soviet Union were compelled to throw out of the window the early slogans of material equality with which they had appealed to the envy and class hatred of the politically illiterate Russian masses. Differentiation by status, differentiation by the pocketbook are the rule, not the exception, in Russia today.

Perfection Comes Slowly

As for the claim that a socialist or communist system would eliminate certain traits of fallible human nature, this has proved complete humbug. The Soviet newspapers, the speeches of Soviet leaders, are full of denunciations of hoodlumism, drunkenness, juvenile delinquency. Corruption scandals are at least as common in Moscow as mink (or vicuna) coats have been in Washington. To refer to these things as "remnants of the capitalist past" is rather ridiculous, as everyone under fifty in the Soviet Union today has spent his formative years under Soviet rule. Indeed, characteristics of oppression that had been moderated by the growth of a liberal public opinion before the Revolution have been repeated, often in aggravated form, under the communist dictatorship.

One is reminded of the words, bitter yet true, with which Joseph Conrad ended a preface to his novel, *Under Western Eyes*, referring to the Russian Bolshevik Revolution: "The ferocity and imbecility of an autocratic rule rejecting all legality and in fact basing itself upon complete moral anarchism provokes the no less imbecile and atrocious answer of a purely utopian revolutionism encompassing destruction by the first means to hand, *in the strange conviction that a fundamental change of hearts must follow the downfall of any given human institutions.* These people are unable to see that all they can effect is merely a change of names. The oppressors and the oppressed are all Russians together; and the world is brought once more face to face with the truth of the saying that the tiger cannot change his stripes or the leopard his spots." (Italics supplied)

Changes in the West

This same truth, that a fundamental change of hearts does not follow even a profound modification of institutions, is evident, in a milder way, in the United States and Great Britain. Fifty years ago in these countries, and throughout

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the Western world, the government laid what would now seem negligibly light taxes on the individual – and expected the individual to look out for his own well-being.

Now Great Britain, partly as the result of a crushing burden of direct and indirect taxation, provides cradle-to-the-grave security, i.e., subsistence livelihood to all. The United States has not gone quite so far in this direction as Great Britain; but the trend in the same direction is unmistakable.

And the results should be disillusioning to those who have believed that poverty is the main cause of crime and that a notable improvement in public behavior would follow the enactment of legislation calculated to eliminate or alleviate poverty. The American material standard of living has never been higher than in the postwar years. Unemployment has been sparse and very liberally cushioned. Little or no crime can be attributed to such a cause as a man stealing a loaf of bread or a bottle of milk to feed a starving family.

Yet the figures of crime have soared with prosperity. Juvenile delinquency or criminality has reached heights never remotely approached in the past in spite of, or perhaps because of, the fact that young criminals have never received so much sympathetic attention from social workers, psychiatrists, and assorted do-gooders.

Slum housing is often regarded as a cause of crime. Yet it often happens that modern housing projects to which slum dwellers have been moved turn into dens of vice, filth, criminality, and juvenile delinquency. This suggests that perhaps people make slums, at least as much as slums make people.

There has been a similar experience in England, where the old law-abiding tradition has seriously declined, although the Welfare State has certainly removed the old excuse that poverty is the cause of crime. British "Teddy boys" have been as obnoxious as the gangs of young hoodlums who make life and property unsafe in large areas of American cities. Some British students of this problem believe that part, at least, of the explanation is that adolescents, earning comparatively high wages, have more money than they are able to spend wisely.

The Individual Is the Key

All these experiences after violent and gradual revolutions indicate that the true hope of improving the worth and dignity and moral and cultural level of the hu-

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man being lies in changing men, not in changing external conditions. That sonorous old moral code, the Ten Commandments, is put in terms of what "thou" shalt or shalt not do. There is not a word in it to suggest that the individual can shuffle off his moral responsibilities onto some vague entity called society.

And this is characteristic of the spirit of both the Old and New Testaments. The Psalms and the Hebrew Prophets always lay stress on individual right thinking and right doing, irrespective of what may be the political and economic conditions in which the individual finds himself. Says Micah: "What doth the Lord require of thee but to do justly, and love mercy, and to walk humbly with thy God?"

And there is this same concern with individual righteousness in other verses of the Old Testament:

"The way of transgressors is hard."

"Righteousness exalteth a nation."

"He that is slow to anger is better than the mighty; and he that ruleth his spirit than he that taketh a city."

Christian Doctrines

This is equally true in regard to the New Testament. Many Jews were discontented with the "colonial" status of their country under the rule of Rome. But Jesus sounded a call not to armed revolt but to personal right living and preparation for life everlasting. "Render therefore unto Caesar the things which are Caesar's" was his reply to those who tried to tempt or provoke him into what would now be called a "nationalist" demonstration. There is the same emphasis in the teachings of the great Apostle of Christianity, Saint Paul:

"I have learned, in whatsoever state I am, to be content."

"Let us not be weary in well-doing."

"Prove all things; hold fast that which is good."

It is not that Jesus and Paul were ignorant of or indifferent to abuses of tyranny and slavery; but it was their conviction that the best and surest way to eliminate these abuses was by changing the sinful heart of the individual man.

Other Religious Creeds

This is also the teaching of other religions that have won many millions of followers. Buddhism, with its central creed that the highest happiness lies in overcoming passion and desire, is a completely individual-centered faith, with its Four Truths and

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its Eightfold Path: rightness in views, intentions, speech, action, livelihood, effort, mindfulness, concentration.

Mohammedanism also places the burden of responsibility on the individual believer. There is a like spirit in the Meditations of Marcus Aurelius Antoninus, the great Stoic philosopher who became Emperor of the Roman world, one of the very few men whom absolute power did not corrupt in the least. His ethical message is emphatically and exclusively personal:

"Thou wilt find rest from vain fancies if thou doest every act in life as though it were thy last."

"A man should *be* upright; not be *kept* upright."

"Blot out vain pomp; check impulse; quench appetite; keep reason under its own control."

Bit by bit, one may be confident, the wisdom of the great religious leaders and sages will prevail, and the truths will gain recognition that without basically good men no tinkering with institutions will be of much avail and that the only significant revolution would be one in the spirit of men. • • •

IDEAS ON LIBERTY

Self-Discipline

AS I GROW OLDER, it becomes increasingly distasteful to me to impose my will upon any being. With the passing of the years, I have discovered that I have quite enough to do in disciplining myself, my thoughts and emotions and impulses — in keeping my own house in order. Self-discipline is the only kind that is of much worth. So long as we are self-disciplined we are free. When we must be disciplined by others, or are called upon to discipline others, we fall into one kind of bondage or another; in the first case we are held down by others, in the second case we are pulled down by others.

The lust for power is the most pernicious of human weaknesses, the cause of more misery than any other. Power through political position, power through social status, power through wealth, power over our children, power over our employees, power over our domestic animals — is not the craving for any of these a manifestation of the same spiritual frailty? The enlightened man seeks to guide others by rational persuasion, by example, by the contagion of his enthusiasm; he shrinks in spiritual stature when he must resort to compulsion. Although we are sometimes forced to use force, we should for our spirit's sake avoid such occasions to the limit of our ability. Humility is a virtue difficult to define, and the attempt to cultivate it has led to some strange paradoxes. But if we mean by humility reluctance to impose our will upon others, it is one of the foremost among all of the moral virtues.

ALEXANDER F. SKUTCH,
"Animal Friends, Dependent and Free"
Nature Magazine. March 1952

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A nostalgic review of the...

HORSE AND BUGGY DAYS

RALPH BRADFORD

ONE WAY to damn a person who speaks up for solvency in these spendiferous years is to ask him scathingly, "What do you want us to do – go back to the horse and buggy days?"

This not only conjures up the image of an outmoded means of transportation, but denotes also that the person addressed has a primitive and unprogressive outlook. To say of a man that he possesses a horse and buggy mind is to bury him very deep indeed in blackest obloquy.

A President of the United States gave great currency to the phrase in the middle thirties. The Supreme Court had invalidated one of his pet interventionist measures by declaring it unconstitutional. To the joy and satisfaction of his worshipful followers, he put the court in its place by asserting that its decision would take the country back to the horse and buggy days.

Since then the phrase has served many a "progressive" spender when he felt the need of administering oral chastisement to some benighted devotee of a balanced budget and a sound currency.

Do you happen to believe that a nation, like an individual, should pay its debts honestly and honorably and not defraud its creditors by forcing them to accept payment in depreciated money? Then surely you are a hang-over from the horse and buggy period.

Do you think it is unfair to your grandchildren to pile up mountainous debt and leave it for them to pay as best they can? Ah then, quite clearly you belong to the horse and buggy type of mentality.

Are you concerned lest continued governmental spending, year after year, of more than it takes in will lead to insolvency and ruin? Why then – what's the matter, man, do you want us to go back to the horse and buggy days?

It is a verbal dagger that has caused many a stout heart to quail

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Mr. Bradford is a well-known writer and business organization consultant.

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and grow faint – and I often wonder why. Actually, the horse and buggy days constituted one of the most enlightened and progressive periods in human history.

The Buggy Came Later

The horse, of course, served mankind from very early times. We see him in prehistoric picture tablets, bearing burdens and drawing loads. Sometimes he is depicted drawing sledges; at others he is hitched to carts or wagons. Here and there we find him galloping fiercely ahead of Assyrian or Roman chariots of war. Later he furnished the power for cumbersome but on the whole rather stately coaches.

But the light, delicate, strong, and easily handled vehicle with the unfortunate name of "buggy" – this was a late-comer in the large family of horse-drawn contraptions and did not reach very general use until around 1800. Its "age" was roughly the nineteenth century.

In itself it was a distinct advancement over many of its predecessors. In England it was generally a two-wheeled conveyance drawn by one horse hitched between side members known as shafts. It developed also in India, where it usually had a hood, or top.

The American buggy could be drawn either by a single horse between shafts, or by a team hitched to an equalizer called a double-tree, and harnessed on either side of a guiding pole, usually called the "tongue." There were several varieties of buggy in this country, with or without tops. When there was a top, it could be let down in fair weather and put up in foul. Side curtains could be snapped on when it rained, and a storm curtain was also supplied, with an isinglass window and protected slots for the reins, or "lines" as most people called them. This curtain came from the top down over the dashboard in front, thus enabling driver and passenger to proceed snugly through the rain.

A feature of most buggies was the so-called fifth wheel. This was a horizontal metal ring, made up of two parts that rotated on each other around the king-bolt or center pin of the swinging front axle. This fifth wheel, far from being the useless appendage that its name came later to imply, was a valuable addition to travel comfort in that it prevented careening, and also enabled the buggy to be turned around in a very short compass.

So much for the buggy as a means of transport – a light, springed, cushioned, sometimes rubber-tired, generally comforta-

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ble, and often gaily painted little conveyance. It was a "modern" vehicle in which people went happily and not at all uncomfortably about the business of getting from one place to another – or of going nowhere in particular. People often "took a spin" for pleasure in their buggies, just as they later did in their automobiles.

A Period of Remarkable Progress

But what of the horse and buggy *days*? What of that dark and dismal era to which you are quickly consigned if you are so brash as to ask, regarding any piece of public work, "What does it cost?" What, in short, of that period in history which is the present-day symbol of backwardness and stagnation?

The horse and buggy days? Well, to start out with, they were the days of Watt and Evans and Bull and M'Naughton – days in which the imaginations of men dreamed up ways to harness the expansive power of steam to make it push a piston and finally turn a wheel. They were the days of George and Robert Stephenson, of Peter Cooper and their successors, who believed that the steam engine could be made to drive a thing they called a locomotive – and who made it work. They were the days of Symington and Bell and Fitch and Fulton, who set steam to turning the paddles of water craft; and of Ericsson, who did away with the paddles in favor of a submerged screw.

The horse and buggy days? They saw Corliss perfect the reciprocating engine; they saw De Laval invent the steam turbine. And when it seemed that steam had about reached the zenith of its development, they saw the age of electricity begin and develop. It was the age of Volta, Farraday, Kelvin, Maxwell, Ampere, Ohm – bold thinkers and patient experimenters who advanced the theories and surmises of Galvani, Franklin, and the other pioneers to the point of practical use and application.

And then, right in the middle of the horse and buggy period – it was 1837 – the name of a portrait painter named Morse flashed upon the electric horizon, and the telegraph was born. A few years later the Brett Brothers, followed by Crampton, pioneered the ocean cable by laying the first wires under the English Channel. And in 1858, while the horse and buggy were still a going concern, the New World and the Old were joined by Field's transatlantic cable.

In 1879, driven to his work no doubt by horse and buggy transport, Thomas Edison invented the incandescent bulb, and the era of electric illumination broke splen-

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didly upon the world. And just ahead of that, young Alexander Bell spoke his summoning words to Watson over the first telephone.

While the horse-drawn cabs and carts of Paris went cloppety-clop over the paving stones, a young couple named Curie toiled in their dreary workshop to startle the world with the magic of radium; and while there were as yet only a few automobiles in the whole world, a young Italian named Marconi had dispatched the first wireless message. In the same period the human voice, acoustically recorded on wax and zinc, was reproduced mechanically, and the now-commonplace but then-miraculous moving picture was created.

While all this was going on, sail gave place to steam on the high seas, and men went from continent to continent amid all the comforts and thrills of great luxury liners – but they went to the dock in a conveyance of the horse and buggy days. The crude engines of Stephenson and Cooper evolved into mighty moguls with compound drive, and the American continent was spanned and crisscrossed with a railway system of fabulous speed, comfort, and dependability – even while the passengers drove to the depots in horse-drawn cabs and buggies.

That was because men of inventive skills and entreprenurial talents thought first of mass transport rather than of individual conveyance. When mass transport had been well served by the development of ship and train, those skills and talents were directed to the needs and desires of the individual and the family; the internal combustion engine was soon brought to practical perfection, and the automobile followed.

But while the automobile was still an infant and the horse and buggy age was still in lusty stride, another bit of magic was wrought by men of genius and persistence. The Wright Brothers flew above the sands of Kitty Hawk. The air age, too, began in the horse and buggy days!

Medical Developments

These paragraphs have traced only the more dramatic and obvious achievements. Medical science also advanced in the same period with seven-league strides. It was the century of Laennec, who invented the stethoscope, of Serturner, who isolated morphine from the opium gum, of Long and Morton, who developed ether. In this "dark" age Auenbrugger and Corvisart discovered percussive diagnosis; Bright solved the meaning of urinary albumen, Blundell devised blood transfusion, and Semmelweiss discovered

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the cause and prevention of the deadly puerperal fever. Virchow laid the foundation for cellular pathology, Pasteur demonstrated the germ theory of disease, Lister began the use of antiseptics, McDowell introduced abdominal surgery, and Roentgen invented, or rather discovered, the X-ray.

Malaria and yellow fever were conquered. Typhoid, once a dread scourge, was practically eliminated. Tuberculosis, the great killer, lost much of its terror. Smallpox was reduced to manageable proportions. Surgery was vastly improved and extended. And perhaps most significant of all, the importance of mind in the cure and prevention of disease was recognized.

Social and Political Growth

It was a century of the greatest invention and material progress and general prosperity that the world had ever known or dreamed of — and it was all done in the horse and buggy days.

It was a time, too, of social and political progress. Here in the Western world a new nation had just been founded, based on fresh new principles of self-government. The theory of the divine right of kings had run its course. The ancient ideas of monarchial and other highly centralized authorities were gradually abandoned in favor of representative government. The liberty and importance of the individual were stressed, and statesmen were careful to build up safeguards for man's freedom of conscience and of choice.

At the core of the new attitude was a wholesome fear of government. Comprehending fully that government was necessary for their protection, men who understood its nature, who knew its fatal tendency to grow and spread and feed upon the substance of its own people, men who in their own lifetimes had experienced its tyrannies over mind and body — such men held with Jefferson that the best governed were the least governed; and in forming a wholly new nation they set up checks and balances among the several arms of their government, all designed to preserve the greatest degree of freedom to people as individuals.

As the nineteenth century moved farther into the horse and buggy age, society developed still further its social conscience and consciousness. At a prodigious cost of life and treasure, human slavery was abolished. Child labor was first outmoded by industrial progress, and then outlawed. Within the states, education was broadened and extended. Beneficent laws were enacted to protect the honest and unwary from exploita-

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tion at the hands of the unscrupulous. And quite apart from the compulsions of law, enlightened policies evolved in business and industry respecting the relations of management with labor and with the general public.

Revolution in Agriculture

It was also a time of growth and development in many fields other than those we have mentioned. Agriculture was being studied, and men were going in for what they called scientific farming, with the laudable object of increasing production. They never dreamed that a time would come when they would be paid by their government *not* to produce.

Chemistry was then the top magician, as electronics was later to be. Invention was the obsession of many; and out of the great seethe of questing minds, the world was enriched. The moldboard and landside plows, the mowing machine, the semi-automatic hay rake, the multiple-furrow drill that placed seed and fertilizer in the ground at the same time, the mechanical broadcasting machine for sowing grasses and small grains, the checkrow planter for corn and cotton, the reaper, the binder, the steam-powered "combine" – all these came along in those benighted horse and buggy days.

So did the trolley car, at first horse-drawn, later pulled by cables, and at last electrically driven. So did the elevator or lift, which made multiple-story buildings possible. The sleeping car, the automatic coupling, the air brake and the refrigerator car – four primary essentials to railroad progress – all were invented in the horse and buggy days.

It was an amazing time of development – roughly a century of man-wrought miracles. More strides were made toward speed, production, comfort, health, ease, and general diffusion of material benefits than had taken place in all the previous ages of human experience lumped together!

A Time of Solvency

And along with other virtues, it was generally a time of solvency. Following the Revolutionary War the colonies were heavily in debt. Not yet a united country, not yet truly a self-governing nation, but rather an alliance of separate and often antagonistic provinces, the war-created Continental Congress of the nation-about-to-be had attempted the impossible by creating a kind of fiat paper money. It was called Continental Currency to distinguish it from the money issued by the several colonies on their own authority, and its individual notes were referred to as

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"continentals." This money soon became so worthless that the phrase "not worth a Continental" was invented to describe anything that was completely without value. There was a terrific inflation – which is another way of saying that the Congress had spent on the war far more than it could realize from taxes, and had issued bales of excess and unsupported paper money. The cost of living went sky high – which simply meant that, with no confidence in the plentiful "continentals," people preferred things to money and bid up their prices accordingly. But then came the new constitutional Republic, buttressed by the improved monetary policies of Hamilton; and in a short time the young country again had a currency that meant something.

It would, of course, be naive to assert that absolute monetary and financial stability characterized the century of the horse and buggy. These lines are not written to overglamorize that period, nor to gloss over its shortcomings. There was pronounced inflation during the Civil War period; and there were other cycles of financial and industrial boom and subsequent "panic."

Certainly it is not contended that voters and their agents in Congress during the nineteenth century understood thoroughly the fundamentals of monetary and credit policy. Then as now, the exploiters and victims of boom and bust blamed one another, and little suspected that government tampering with money had helped cause bad conditions – which further tampering was expected to cure!

Nevertheless, the people of the horse and buggy century did generally hold a conservatively healthy respect for solvency. Of course, they knew about debt and its proper uses. They did not at all hesitate to borrow when it was good business to do so. They could have understood, and did understand, an occasional deficit year on the part of their government, when some unusual circumstance controlled.

But to operate on a permanent deficit basis, to keep piling debt on top of debt endlessly, cheapening their money and threatening their standards of living in the process – this is a procedure that would have been revolting to their reason and offensive to their practical good sense. Is this another reason to be slightly nostalgic about the horse and buggy days?

Now it is about time for somebody to rise up and say, "What do you want to do – go back to those horse and buggy days?" And that, needless to say, is nonsense. I

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couldn't go back if I would, and I wouldn't if I could. Those days had many discomforts and some hardships – though I must say they were not then so regarded. But nobody in his senses wants to go backward. The way of life and of progress is forward, to new comforts, inventions, achievements, adventures.

Unchanging Truths

But there are certain things that do not change, whatever the age. Living in the space age does not alter the fact that honesty is the best policy. The miracle of atomic fission does not negate that two and two make four. A thermonuclear bomb may destroy a city and raise a cloud a hundred miles high, but it does not destroy the truth that neither a man nor a nation can forever spend more than it takes in and escape bankruptcy. Supersonic speed can never take us away from the truth that human freedom and welfare are conditioned by limitations upon governmental power.

Such truths, which seem so easily forgotten or ignored today, were not merely in existence but were recognized and generally understood and acted upon during the horse and buggy days.

Some time ago I saw a drawing that depicted the parlor of an American home around 1900. The windows were heavily draped. The walls were hung with family portraits. An upright piano stood in the corner. A wood stove furnished heat. Even a "God Bless Our Home" motto was hanging above the door. The picture was supposed to be funny to a present-day viewer. But it failed to amuse me.

I was conscious that the scene typified an era. Maybe we shall have other eras as good, but we have not for many years enjoyed a period of time so filled with peace and comfort and lack of fretful worry, so rich with real security, and withal so full of freedom, as that one was.

Maybe the man of the picture had a small income by today's standards; but he had a comfortable home, and he lived well and saved money. And when he had saved that money, he was not haunted by the fear of ruinous inflation or the awareness that his savings were losing their value steadily and inexorably.

Maybe he ran a small business. If so, it was *his* business, not a kind of adjunct to the State. Nobody at Washington shed crocodile tears over his plight as a "small" businessman; and by the same token nobody at Washington or elsewhere told him how to run that business. If he wanted to expand it, he did so within the

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limits of his resources and credit, without securing the consent or approval of any bureau or commission, whether of the state or federal government.

Or possibly he was a farmer. If so, he was free to plant as many acres as he liked to whatever crops he pleased and sell his produce at the price it would bring in a relatively free market. If he could devise some way to raise more or better wheat or hogs or beef or wool or cotton, he was free to do so without being subject to fine and prosecution.

He had his problems, that turn-of-the-century householder, whatever his occupation. He probably knew some hardships. But actually he enjoyed a far greater sense of security than he would today.

Security Sought and Lost

Security! What an irony the word contains! What are we secure from today, with the threat of thermonuclear devastation hanging over our lives? Are we secure in our position as a nation? If so, then why are we afraid? Are we secure economically? Then why the almost frenzied analysis and counteranalysis of the recent business slow-up? And what of our so-called social security? What does it mean to the average beneficiary, when the dollars that he and his employer have paid in have already been spent for other governmental operations, while the promised benefits have shrunk to less than half their value, and are still shrinking?

Go back to the horse and buggy days? Certainly not. The way of life is forward, even though it may lead to disaster before it leads to fulfillment. But we might very well and with great profit go back to some of the moral values and some of the economic horse-sense of that much maligned period.

At least we can stop referring to it with sneering condescension as though it were a kind of modern dark age. It was in fact a great and glowing century, excelling all others before it, and all of them combined, in the richness and variety of its unfoldment.• • •

IDEAS ON LIBERTY

Progress Through Thought

SOCIAL REFORM is not to be secured by noise and shouting, by complaints and denunciations, by the formation of parties, or the making of revolutions; but by the awakening of thought and the progress of ideas.... When there is correct thought, right action will follow.

HENRY GEORGE, *Social Problems*

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EXECUTIVES TAX CALENDAR

(First Quarter, 1959)

JANUARY—

15-F Final Declaration of Estimated Income Tax by Individuals for calendar year 1958 due, accompanied by final or full payment.

31-S New York State Unemployment Insurance Tax for fourth Quarter 1958.

FEBRUARY—

2-F Federal Unemployment Insurance Tax for year 1958.

2-F Deposit Withholding Tax accumulation (if over $100 through December 1958).

2-F Federal Withholding Tax and Social Security Tax for fourth quarter 1958 on Form 941.

2-F File Directors copies of Form W-2 and reconciliation of quarterly Withholding Tax reports on Form W-3; and also compile individual statements to employees on Form W-2 (in duplicate) covering total payment and withholding of employees during 1958.

15-S Final Quarterly payment due, Normal Income Tax and Capital Gains Tax for Individuals.

16-S Deposit Withholding Tax accumulation and Social Security Tax (if over $100 through January).

15-S Information returns due on earnings of Resident Employees of the State of New York.

MARCH—

1-S Report and payment of Tax withheld on Non-residents of the State of New York.

2-F All other Federal Income Tax Information returns due, except returns of fiduciaries and partnerships. Forms 1096 and 1099 due here.

16-F Deposit Withholding Tax accumulation and Social Security Tax (if over $100 through February).

16-F Income Tax for calendar year 1958 of Corporations.

20-C Sales and Compensating Use Tax covering the three months of December 1958, January and February 1959.

◀ A typical tax calendar for a business in New York City.

F — Federal Taxes
S — State of New York Taxes
C — New York City Taxes

Business Taxes

The burden of taxes may be shifted

WHY SHOULD I be concerned about the multitude of business taxes levied by the federal, state, and local governments? Why should a wage earner be interested in a businessman's property, commodity, excise, service, income, excess profits, and license taxes?

All socialists and pseudoliberals have a ready answer: "Taxes on business redistribute the gains derived from exploiting the working man and gouging the consumer. They return purchasing power to the people whom the cruel capitalist system has deprived of their rightful shares as workers and consumers. Confiscatory business taxes are an important element of justice in an otherwise unfair economic order. This tax justice reconciles the workers with the system and thus prevents them from overthrowing it. In final analysis, business taxes and other business-control-

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Concern Everyone

readjustment of the whole economy

HANS F. SENNHOLZ

ling measures safeguard the old capitalist order from its own destruction. They sustain our democratic way of life."

The free enterpriser summarily rejects these socialist notions and may reason as follows: "Business taxes concern everyone because they burden everyone's production. They cause capital consumption, lower economic productivity, lower salaries and wages, and lead to government expansion and arbitrariness. Above all, business taxes concern everyone because they are frequently 'shifted' to everyone through readjustment of the whole economy."

The term "shifting" unfortunately implies an expedient which moves the tax burden from one person to another often by trick, dodge, or fraud. It implies evasive methods and tax loopholes which the government should endeavor to close.

In reality, the "shifting" is simply a poor expression for price adjustment in a market economy.

Dr. Sennholz is Head of the Department of Economics, Grove City College, Pennsylvania.

As long as the factors of production – capital and labor – stay in private ownership or retain their mobility, they tend to adjust to all changes in market conditions as well as government intervention.

Shifting of Profit Taxes

Let us trace the shifting of the federal income tax on corporate profits. The tax is, in effect, an additional cost of production, like that of raw material, fuel, or labor. When it is first imposed, no single producer can raise his prices to compensate for the tax. He must pay it out of his earnings. Under the impact of the tax, the marginal enterprises, which had previously earned just enough to remunerate all employed factors of production including a return on capital and payment for risk, will now lack the necessary income.

A producer who suffers losses will endeavor to minimize the losses by reducing his output. And one who is not compensated for his risk and capital acts similarly. He may shift his capital to

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more profitable employment or merely withdraw it from production. Thus, economic output is reduced. How quickly it will be reduced depends on the nature of the capital and, especially, on its mobility.

Declining production tends to exert an upward pressure on the sales price of the product. The market price is bid up to a point where the demand for and supply of the product are in equilibrium again. This means that production will be cut back and prices will rise until the earnings suffice to compensate the remaining producers for their capital and risk. At the higher prices and lower production, however, some capital investments will remain unprofitable until eventually written off as malinvestments or withdrawn for other employments. The higher prices also impose a burden on consumers and lower their standards of living. Some consumers even have to do without the product.

Two-Way Tax Shifting

This is merely the beginning of the necessary shifting. The cutback of production causes a reduction of demand for materials, labor, and capital goods. Their prices tend to decline. In case price adjustment is difficult because of institutional rigidity, such as labor union refusal to lower wages, unemployment must set in. Lower wages and unemployment reduce the workers' demand for consumer goods which in turn leads to further production restrictions.

Thus, we find not only "forward shifting" in the form of reduced profits and higher prices, but also "backward shifting" in the form of lower prices for materials and lower wages.

The restrictive effect of the tax is counteracted somewhat by a larger government demand. Wherever the federal government spends its revenue, it tends to strengthen prices. Its subsidies to agriculture, for instance, make farming more profitable than it otherwise would be. Farming will attract more capital and labor, and farmers will have more money for consumption. Other industries consequently will readjust to cater to agriculture.

The employment of 2¼ million civil servants on federal payrolls also tends to absorb some labor set free by industry. But their income, as well as all other government spending, involves more than a mere transfer payment taken from industry and spent by civil servants, farmers, and contractors working for the government; it is income derived from the market awards of a single fac-

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tor of production: capital. In the hands of the businessmen, capital is both the motivating power and the material requirement of all industrial production. To deprive capital of its proper rewards, such as interest on the businessman's own capital and remuneration for risk, inflicts havoc on the whole economy. *Production is curtailed not only by the amount of tax levy but also by the much greater amount of capital lost or withdrawn for want of remuneration.* Though this capital deficiency is caused by government taxation, it cannot be remedied by government spending.

Two Alleged Exceptions

According to the prevailing tax doctrine, there are at least two taxes that cannot be shifted after having been imposed on a taxpayer. It is said that such a personal tax as the inheritance tax cannot be shifted by way of business operations. Consequently, it cannot affect the prices charged for goods and services.

Although this reasoning appears plausible, it is nevertheless dubious. In our preceding example, the first tax assessment on corporate income clearly reduced corporate profits. But then the economic adjustment set in, leading to reduced production, higher product prices, lower material prices, and lower wages. But these very same things happen as the result of confiscatory inheritance taxation which aims at large business fortunes.

It is true, the tax does not consume directly the business assets, such as railroad equipment and oil refineries. But it forces the heirs to liquidate the assets in order to pay the tax assessment. The government then absorbs the liquidated capital, with the same effects as if it were absorbing business profits. Indeed, although the inheritance tax may be less frequently imposed, it nevertheless is equally devastating for the whole economy. It consumes business capital, reduces production, increases product prices, and lowers material prices and wages. And like the corporate income tax which inflicts heavy losses on some marginal producers, the inheritance tax confiscates the large fortunes of some deceased producers.

The second alleged exception to tax shifting is the case of "economic surplus." According to the interventionist tax doctrine, which has led to the present confiscatory levels of business taxation, "surplus" taxes do not determine prices and costs, but are determined by them; they cannot work themselves either forward or backward into prices or costs.

"Economic surplus" is usually

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defined as "that part of a payment or accretion of purchasing power which is not necessary either to maintain the service of a factor of production, or to its necessary or desirable increase." In other words, true profits above an allowance for interest and risk are not needed to maintain factor services and, consequently, may be absorbed through taxes.

In reality, this concept of "economic surplus" is ambiguous and utterly useless for the understanding of economic profits. What is an executive's "surplus" salary which can be taken from him without reducing his initiative and efficiency? What is a corporation's "surplus" profit that can be taxed away without hampering its operation and "necessary or desirable" growth? What is "necessary or desirable" growth? Every conceivable answer obviously must be arbitrary.

The "surplus" theory disregards the very function of profits as the indispensable regulator of business activity. High profits which result from increased consumer demand or technological improvements immediately provide and attract additional capital. The ensuing expansion of output then reduces the profits and ultimately eliminates them entirely. An absorption of profits through taxes, however, renders the expansion unprofitable and thus perpetuates the maladjustment that creates the profits.

In other words, the surplus taxation deprives the market economy of its ability to adjust to changed conditions. Progress through technological improvements is either halted entirely or slowed down to a "desirable" rate of growth. Thus, product prices are kept higher and wages lower than they otherwise would be. So we see that confiscatory inheritance taxes and the taxes against "surpluses" are quite as readily "shifted" as are regular corporate income taxes.

Present Tax Rates Encourage Waste

The present taxes not only consume business capital, and consequently retard economic progress, but also lead to wasteful business practices. High taxes discourage thrift and economy because most of the fruits of such economy would accrue to the various governments in the form of taxes. Why should a corporation or a businessman in confiscatory tax brackets scrutinize business costs and endeavor to hold them down if there is little chance to gain thereby?

Instead of controlling costs carefully, a businessman subject to confiscatory taxation may be tempted to increase them. He may

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increase his outlays for advertisement, thus reducing his tax liabilities while at the same time promoting his future business. He may close his eyes to labor inefficiency in order that he may become more popular with his workers. He may grant costly "fringe" benefits just to reduce his tax liabilities. Or he may increase his costs of business travel and entertainment.

His decision depends on which yields the greater satisfaction: his added spending, or his net profit after taxes. For instance, being in the 80 per cent income bracket he must decide whether one dollar additional spending on advertisement, labor benefits, traveling, or entertainment is more desirable than 20¢ net profit. In many cases, his decision will be in favor of additional spending.

At first glance, the greater benefits to labor may appear desirable and beneficial. But it must be recognized that they are not earned through higher productivity. On the contrary, in this case they are accompanied by lower labor efficiency. The greater benefits are obtained gratuitously through distribution of the businessman's profits. They create a privileged class of workers earning higher wages for less work.

The workers' only claim to these benefits rests on the coincidence that the business which employs them earns high profits. Other workers, in marginal enterprises without profits available for benefits, will earn less for similar labor services. But such a difference causes dissatisfaction on the part of the "underpaid" workers and leads to labor unrest and strife. This ominous result, together with the fact that the higher costs consume business capital, should give concern to all workers, including those who share in the profits.

Economic and Social Rigidity

Production for future consumption involves various degrees of risk. Demand, supply, and prices may change. Even the whole outcome of a business venture may be uncertain, as in the case of scientific research or the search for oil. A businessman, therefore, compares his chances of success and eventual profit with the possibilities of failure and loss. Enticed by the possibility of great profits, he may be willing to risk some capital. On the other hand, if profits are to be denied him regardless of his success, he will be reluctant to risk his capital. This is why confiscatory business taxes discourage risk-taking. The costs of failure are exclusively borne by the businessman, and the fruits of eventual success are mainly

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reaped by the hungry government.

Without "risk capital" an economy becomes rigid and stagnant. It loses the capacity to adjust quickly to changing demand situations or to technological innovations. Maladjustments go uncorrected, and progress becomes painfully slow.

This rigidity and stagnation is of special significance for the young and the poor. A young man eager for success in business depends on his courage and ingenuity. Lack of capital obliges him to operate on a "shoestring." He takes great chances in order to earn large profits. Only through profits plowed back can his business grow to challenge the established enterprises. Profits are the only road by which a man in business can rise from rags to riches.

The present business taxation tends to prevent a newcomer from growing to challenge the large corporations. It is true, the same taxation prevents a large enterprise from growing even larger. But it also keeps the new business small. In other words, the present income taxes help to shield the established wealthy businessman against competition from the newcomer.

Today, a young man's opportunity to become the founder of a large enterprise is very slim. What chance does he have to compete with the giant corporations while his profits are continuously confiscated? The large corporations may relax and become bureaucratic and inefficient; they will not be challenged by newcomers. On the contrary, the small businessman facing this futile struggle against taxes and other interventionist obstacles may endeavor to sell out to his larger competitors. Thus, present tax rates encourage the growth of business combinations and discourage the small independent producers.

It is indeed an irony that our government protects the large corporation from the competition of the small while it professes to protect the small. It deprives the poor of opportunity to succeed while it professes to promote their welfare. And it creates social classes while it ardently aims at equality.

A New Profession

The present business taxes have created a new profession: the tax expert. They have withdrawn hundreds of thousands of men and women from productive employment and put them to work on tax matters. They have crowded not only the government bureaus with thousands of tax agents assisted by large clerical staffs but also the accounting department of our pro-

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ductive enterprises with an even larger number of tax accountants, tax counselors and advisers, tax lawyers, and the like.

We often neglect this aspect of taxation when we calculate the costs of government. We are prone to forget that tax accounting and all other bookkeeping required by government impose tremendous costs on business. And we take it for granted that businessmen must calculate and withhold the taxes of their employees and send them to the federal government without being remunerated for the costs of such collection. All those expenses inevitably lead to higher product prices, lower productivity and wages, consumption of business capital, and ultimate economic stagnation.

Towards Government Arbitrariness and Economic Regulation

However, there is yet another more ominous result of our present taxation: It has opened a gateway for bureaucratic power and arbitrariness. Business taxes in general are based on valuations. In order to arrive at his taxable income, a businessman must evaluate his inventory, the depreciation and obsolescence of his fixed assets and equipment, his accounts receivable, and other business assets. While it is in his interest to demonstrate high business costs and low profits in order to reduce his tax liabilities, the government likes to arrive at lower costs and higher profits in order to enjoy larger revenues. In the absence of an objective yardstick of evaluation, the government proceeds to define "legitimate" business costs, depreciation allowances, obsolescence, inventory value, and the like.

Without fail, its definitions aim at increasing government revenues. Without regard for economic effects, the "legitimate" costs are reduced to levels that fail to cover actual business expenses. An example of such an arbitrary tax regulation is the government refusal to allow for proper depreciation.

According to present tax regulations, depreciation can be based only on original cost. But in periods of inflation, such as ours, the cost of replacing plant and equipment is much larger than its original cost. Consequently, accounting that does not allow for the replacement costs causes an overstatement of earnings for American corporations amounting to billions of dollars annually. It has been estimated that during 1947 and 1948, when prices rose rapidly, all nonfinancial corporations were forced to overstate their profits by a total of $28.4 billion and their tax liabilities by

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45.8 per cent. In this fashion, the Internal Revenue Service levies an oppressive supertax on the high business taxes imposed by Congress.

In order to enforce such arbitrary tax devices, a host of tax agents incessantly swarm about a man's business and pry into his books. Searching for "unauthorized" expenditures and "improper" tax procedures, they delve into all details of business life. Their decisions may spell doom to a businessman, for noncompliance with tax regulations may mean economic disaster, conviction, and social disgrace.

The frightful power of our tax administration can also be seen in politics. Whenever a businessman incurs the wrath of Congress or the Administration, the Internal Revenue Service is likely to be called into action. Usually in such cases, tax agents will establish new tax liabilities or even charge the victim with tax evasion. In fact, the Internal Revenue Service frequently has acted as the punitive arm of the government.

Our present business taxes are the concern of everyone because they are ushering in government omnipotence and all-round economic regulation. They hamper production and cause economic stagnation. They encourage waste and inefficiency, depress wages, and cause labor unrest and strife. They make for economic rigidity and create social classes. In short, present business taxes are destroying our way of life. • • •

IDEAS ON LIBERTY

William Graham Sumner

THE STATE is the greatest monopoly of all; it can brook no rival or colleague in its domain; it is necessarily sole and supreme. If the State is purely a civil organization, this monopoly character of it is beneficial; if, however, the State enters as an agent into the industrial or social relations of its own subjects, it becomes the greatest and worst of all monopolies, the one best worth having under one's control, the best prize of base struggles, and the most powerful engine by which some men may exploit others.

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MUTUAL SECURITY . . . . . .

or—THE NEW MERCANTILISM

It was an April afternoon
At story-telling time.
Old Kaspar lit a fresh cigar
And poured a rum-and-lime;
While Peterkin and Wilhelmine
Turned on the television screen.

They saw a gang of sweating men
Go through an open door
And dump a pile of swords and guns
Upon the Senate floor,
Where Senators, with weights and scales,
Were sorting dollars into bales.

"Now tell us what it's all about!"
The little children cried.
"It's Mutual Security,"
Old Kaspar soon replied.
"The folks who live across the seas
Want many swords and guns like these."

"How will they pay for all those guns?"
Asked little Peterkin.
"They'll pay for them with dollars, Pete,"
Said Kaspar with a grin.
"Before they get a sword or gun
They'll pay us dollars by the ton."

"But how can folks across the sea
Get dollars by the ton?"
"Why, that's no problem," Kaspar said,
"Or just a little one;
When buyers live in foreign lands,
We put the dollars in their hands."

H. P. B. JENKINS
Economist at Fayetteville, Arkansas

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INFLATION SPELLS RUINATION

Except for the actual figures, this account of inflation in Canada accurately describes what also is happening in the United States, and in most other countries as well.

ROBERT MOON

HISTORY IS FILLED with examples of unchecked inflation and its disastrous results – destruction of the people's savings, disruption of their lives, and the wrecking of national economic systems. Empires have fallen because of it.

Lenin advised his communist followers that inflation was one of their chief weapons for the world revolution they hoped to bring about. Lenin said the best way to destroy capitalistic countries was to demolish the purchasing power of their currencies.

Today, Lenin would not have had to conduct his secret inflationary war from behind the Iron Curtain. He has many millions of unconscious allies in the Western world to aid and abet him by demanding and supporting policies which fan the inflationary fires.

Canadians are among them. Collectively, we have indulged in unsound, wishful thinking. Most of us have wanted something for nothing from our governments. We farmers have wanted handouts, we businessmen have wanted easy money, low interest rates. We manufacturers have wanted tariff protection from foreign competitors. We workmen have wanted constant employment with higher pay, shorter hours, and expensive security provisions. We have expected our governments to accomplish the impossible. We have supported them while they tried. We have been mystified by the discovery that our good Canadian dollar is progressively losing its purchasing value.

Now the shocking truth has caught up with us. We find that

Mr. Moon is Ottawa staff correspondent for the Regina *Leader-Post* and the Saskatoon *Star Phoenix*. This is a condensation, printed by permission, from a series of ten articles published in those papers in the Fall of 1958.

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we have paid for these unearned handouts by progressive destruction of the value and the purchasing power of our hard-earned money saved for our retirement in pension funds, saved for the protection of our wives and children in insurance benefits, saved for future use or for a rainy day in bank accounts, in bonds, including war savings bonds. Such cherished assets now buy only 70 per cent or 50 per cent of what they cost and will soon buy less, unless we succeed in stopping inflation and preserving the value of our dollar.

All of this has resulted from policies and practices which we have forced on our governments if they were to enjoy our support.

The tragedy is that Canadians now seem to accept inflation as certain. Many try to safeguard themselves, or "hedge," against inflation by buying stocks and houses and tangible "things." Even such safeguards will not prevent eventual monetary and financial chaos. If this trend continues, the value of the dollar inevitably will collapse.

Those Who Suffer

But inflation and the dollar's continued shrinkage needn't be certain. They can and should be stopped, and the buying power of the dollar maintained. Until it is, those who live on fixed incomes suffer because prices go up and their dollar won't buy as much as formerly.

Pensioners suffer because their pensions were established when the dollar was worth more and bought more. When its purchasing power declined, they could buy less. They suffer.

Those who receive life insurance benefits suffer. They paid in their money when it was worth perhaps twice as much as it is today. They thought they were providing for their future or their dependents' future. They weren't. Prices went up in the meantime and the purchasing power of the dollar dropped. They suffer.

Savers who deposited their money in the bank heeded a childhood injunction that the bank was a good place to leave their money and that savings were a good thing to have. They were. But prices rose and the dollar dropped in value. The savers no longer can buy as much with the dollar they saved as they could when they put it in the bank. They suffer.

Investors who purchased government bonds thought their investment was about the safest they could make. It was. Inflation changed all that. The investors who bought government bonds suffer.

Those who are on salaries and

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wages also suffer. These salaries and wages may be rising, but they are not rising equally from firm to firm and from occupation to occupation. Those workers may be better off in inflationary times than those who are on fixed incomes, but there will be certain inequalities caused by inflation.

In the end, everyone suffers.

And if the government cannot sell its bonds to the people because the people have grown wary of placing their money where it will not maintain its value, a very serious situation develops in carrying on the nation's affairs.

The National Debt

Nevertheless, it is within the power of government, through its handling of the national debt and the supply of money, to speed up or slow down the insidious disease of inflation.

Ever since the war, more and more dollars have been purchasing relatively fewer goods. In the decade after 1946, the volume of production of goods and services climbed by only about 3 per cent per year, whereas the money supply rose by about 5½ per cent annually.

In the last thirteen months (through September 1958) the volume of output of goods and services remained virtually unchanged. But the supply of money in the hands of the people increased by a startling 14 per cent. There now are $114 in the pockets of the people or in bank deposits for every $100 thirteen months ago. The increase in the money supply in the last thirteen months has totaled $1,500,000,000. It is much greater than in any similar postwar period.

Meanwhile, the minor recession has caused some persons to save their money. From the end of April to September 17, dollar deposits in chartered banks increased by $808,000,000. The increase in deposits for the year up to September 17 was $1,418,000,000. This temporarily alleviated pressures which the artificially created money might have on the existing goods and services, pressures which might shrink the purchasing power of the dollar still further.

The Money Supply

The question is: What will happen if a boom comes quickly, perhaps next summer – as many believe – to spark a new spending spree? Will the $1,500,000,000 still be around to compete for the existing goods and services, which normally only increase in volume by an average of 3 per cent annually?

Will the government in the meantime drain off some of the

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potentially competitive dollars by way of imposing and collecting higher taxes or through increased borrowing from the public, or by having its Bank of Canada sell some of its vast holdings of government bonds to the public and the chartered banks for cash and bank credits which thus would be taken out of circulation?

This is the great question in Canada's present inflation crisis. If the government does not do this, then prices will rise still further. The dollar will shrink more in purchasing power. Inflation will have exacted a still higher toll of suffering.

The "Printing Press"

If a government "printing press" ran off $1,500,000,000 in dollar bills, it could no more surely increase Canada's money supply than our Canadian government has during the past thirteen months. It has indeed called for the "printing" of some of the currency included in this total. It does not need to print it all because of a money and banking technique which will be described. Nonetheless, the whole process is called the "printing press" method of creating money and credits.

The technique sometimes is used by our governments when borrowings from the people's savings are not sufficient to cover deficits incurred in an attempt to please everyone.

Sometimes governments "print" money because they wish to avoid the politically unpopular action of raising taxes to cover the deficit. The terrible fact is that in seeking to avoid a politically unpopular action, an extremely harmful economic force is set in motion, which makes everybody's income and savings buy less by lowering the value of the dollar.

That is why the money supply is crucially important. That is why governments should use courage of the highest order in handling money and why every Canadian should understand before he can support corrective changes in government policy.

This is how the "printed" money process operates when a government resorts to it because it can't raise sufficient money by taxes or by borrowing from the public to pay for its spending:

The Central Bank

The government issues a bond or note of specified amount to the Bank of Canada or a chartered bank and has the bank credit the government's account with the value of the bond. The government has thus created a credit or new deposits in the Bank of Canada or in the chartered bank.

The government can draw

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checks on the Bank of Canada or the chartered bank. The government then pays its own expenses by issuing checks to individuals or firms to the total extent of the bond or note deposited originally in the Bank of Canada or the chartered bank. Recipients of the government checks may, of course, cash them for currency.

Nowadays, most large-scale business is conducted by check, so that very little actual dollar bill currency may be required.

The chartered bank can procure the actual dollars required by presenting the government's check to the Bank of Canada for currency. The money would then have to be printed by the Bank of Canada to meet the obligation for cash.

But the check paid out by the government has the same effect as money, even if it is not presented for actual currency. And the government has another way of putting "printing press" money into circulation. It can have its government-owned Bank of Canada simply go into the open bond market and buy government bonds from private holders and pay for them by Bank of Canada "printing press" notes and credits. The result of this open market operation is the same as if the government in the first place had not sold the bonds to the public at all but had merely sold them to its Bank of Canada for "printing press" money.

Reserve Banking

An important fact of this "printed" money process is that the effect of such artificial creation of money is enlarged by a standard banking practice which results in the multiplication of bank loans and credits. The chartered banks are required by law to back up their loans and investments by placing 8 per cent of their deposits in the Bank of Canada.

That is, if a check or cash is deposited by a citizen in a chartered bank, this will raise the volume of the bank's deposits and the bank must in turn deposit 8 per cent of this check or cash amount with the Bank of Canada. Once the chartered bank has done this, it may loan out the remaining 92 per cent. It is the fact that it can loan out this amount which magnifies the effect of the government's artificial creation of money. Further, if another chartered bank then receives this remaining 92 per cent, it too must deposit 8 per cent of this amount with the Bank of Canada and it can loan out the remainder. This process can go on a number of times, each time creating new spendable credits, and therefore increasing the pressure on the

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purchasing power of the dollar each time.

When the government sells a bond to the Bank of Canada and deposits the proceeds in a chartered bank, it is therefore conceivably increasing the potential money supply by more than twelve times the amount of the original government note.

The Bank of Canada can increase or decrease the money supply at its own discretion. In the last analysis, however, it is the government itself which plays the decisive role in deciding how much money should be in circulation.

Our government's actions in increasing or decreasing money in circulation, in drawing on public savings by selling government securities to the public in loans, in controlling interest rates, are dependent finally on public opinion politically approving or disapproving these government practices.

$1,500,000,000 Added

The handling of money is directly related to the national debt. And from the standpoint of the purchasing power of the dollar, there is now a new emergency in Canada. That emergency arises out of the present rapidly increasing national debt. This is why:

Our federal government is now spending far more than it is taking in by way of revenues from all sources, including taxation and bond sales to purchasers (other than banks) who pay for the bonds out of savings. Bond sales to the public represent a natural increase in the national debt, but at least the government is obtaining legitimate savings to use in meeting its expenditures. The bond sales to the general public have not filled up the revenue bag to the point at which revenues and expenditures are in balance.

To the extent of $1,500,000,000 during the past year our government has added to its debt obligations by creating new "printing press" money, that is, by selling bonds to the banks which pay for them by creating new deposits for the government to spend. It now seems that our government's present spending policies will result in more money being created, or "printed" and spent, to add further to the inflationary spiral.

This is not a new process, not a recent postwar invention. It has been known and practiced for many years. During World War II, Canada's national debt multiplied by four times. Yet Canada financed that war on a 3 per cent interest rate, tripled the money supply, and prevented prices from rising beyond 20 per cent.

After the war, the controls and

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the rationing ended. Gone, too, was the patriotic impulse to save. But the inflationary pressure was somewhat mitigated by the government taxing more money than it currently spent. It used the surplus to buy in and retire government bonds, thus reducing the debt in a way in which the present government might intend retiring the present debt at some future date.

Nonetheless, in the postwar years, the tripled money supply remained. There was, moreover, a strong impulse to cash in on the Victory Bonds in order to make purchases which had been postponed during the war years. As if this were not enough, there was also a great new era of capital expansion and construction.

In Canada, as in Britain and the United States and elsewhere, prices kept rising so that now the Canadian dollar will buy only half as much as it would buy in 1939. Prices have risen by 100 per cent. Such was the effect of increasing the public debt and the money supply by deficit finance during World War II.

The Canadian dollar had proven as much a war casualty as any wounded soldier in the field. Moreover, the injury to the Canadian dollar grew worse after the war. In terms of purchasing power, it has never recovered.

Nationalization Spells Loss

The fact of this year's deficit is already widely known. Its full scope, however, is not. The budget itself involved a deficit of $805,000,000, including a $165,000,000 NATO account for which funds must be raised. Moreover, the government still has to find money for its old-age pension fund because the revenues from these collections do not equal the outgo. Further, the Canadian National Railway does not operate at a profit and the government must provide the railway with funds to cover its extensive 1958-59 loss. The government also is making new loans to the Central Mortgage and Housing Corporation, to the St. Lawrence Seaway Authority, and to other federal organizations. Finance Minister Fleming himself estimated that over all, without making any allowance for old debts falling due, he would need to raise about $1,400,000,000 in additional money this year.

At the same time, our government has not succeeded in borrowing sufficient existing savings by selling the savers new government bonds. The "borrowing," therefore, has mainly been done by "selling" the bonds to the chartered banks and in part to the Bank of Canada. These banks pay the government for its bonds by creating a new "printing press"

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deposit. Hence, the increase in the money supply, about 14 per cent in thirteen months. Hence the dangers to the value of the dollar.

Citizens Lose Faith

The average Canadian citizen, who more and more has been sensing the prolonged and unabated nature of the declining value of his dollar, has become less and less inclined to trust the federal government with his money.

He has, in actual practice, been doing what is technically described as "dis-investing" in government bonds. He has, in layman's language, been taking his money out of government bonds and using it otherwise. He has been saving it or spending it or investing it in some other way such as common stocks, land, and buildings at increasingly high prices. He has, on average, been selling more government bonds to the banks than he has been buying. He has been doing this to the extent of hundreds of millions of dollars since the end of World War II. He has been doing it constantly over the years since that time. He is still doing it.

At the end of 1945, the public, excluding the banks, held more than $11,000,000,000 in government bonds. Now the public holds less than $8,100,000,000 in such bonds, including Savings Bonds. The sharpness of the decline in this investment is self-evident.

Here are the figures which show the continuing recent decline in public investment in government bonds, not including Savings Bonds:

August 28, 1957—$6,159,000,000
June 25, 1958 —$6,013,000,000
Sept. 24, 1958 —$5,597,000,000

The trend is unmistakable. It is down, down, down.

During the same period, the gross public debt has been going up, up, up:

August 28, 1957—$14,765,000,000
June 25, 1958 —$15,507,000,000
Sept. 24, 1958 —$15,815,000,000
As of October 20, it was
—over $16,000,000,000

Savings Bonds Unattractive

Neither should there be any confusion about the effect of Savings Bond sales. While a new Savings Bond issue was being offered last month, with certain resultant sales, the total amount the public invests with the government in this way rises very little from year to year, notwithstanding huge annual sales volumes. These are the figures of Savings Bonds outstanding:

August 28, 1957—$2,238,000,000
June 25, 1958 —$2,474,000,000
Sept. 24, 1958 —$2,391,000,000

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The public may buy new Savings Bonds quickly and in large amounts. The public cashes in on its old ones almost as fast. There is, in short, little net gain in Savings Bond totals. Our government is not financing much more of its operations from this form of funds from year to year. In fact, with the dollar relentlessly losing value and expenditure totals rising, it has been financing proportionately less and less of its operations from the proceeds of Savings Bonds. And it is losing the proceeds of the nonsavings type of government bonds to the tune of hundreds of millions of dollars.

Good Intentions, Bad Results

P. T. Barnum, the circus impresario, whose cynical comments on the gullible have become renowned, indeed would have enjoyed our readiness to support policies which are destroying our own savings.

When we embarked on an inflationary spending program, we did not realize that the result certainly would be that our dollars' purchasing value would be seriously reduced thereby. We wanted only to alleviate unemployment, to help a depressed industry, to inspire development, to provide higher wages for civil servants, higher pensions for the aged, and aid to farmers. We did not realize that it involved the artificial creation of money which would be left in circulation and be sure to reduce the purchasing power of the dollar. We rarely, if ever, look at both sides of the same coin. We may benefit, temporarily at least, but we seldom realize it was the very government policies and practices which we supported which have helped bring about the present inflation crisis.

Consider how this comes about. We may wish to have our government help maintain a high level of employment. Our government, therefore, may embark on a heavy spending program or cut taxes, or do both. Either way, more money is put into circulation. In thus seeking to have our government spur the economy we may have set in motion a far worse danger than that which we sought to alleviate.

We have learned that there is no pie-in-the-sky. We have learned the hard way that the real price of demanding something for nothing is the progressive destruction of the value of all our Canadian dollars – our shopping dollars – our pension dollars – our insurance dollars – our invested dollars.

This is the price a nation cannot endure without grave peril to the whole economic system. • • •

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A suggestion that ought to be helpful to students, parents, alumni, teachers, school administrators, and others seeking . . .

A WAY TO FINANCE HIGHER EDUCATION

LOVETT C. PETERS

IN PRIVATE INSTITUTIONS, college and graduate school education has been heavily subsidized by income from endowment. Each student's tuition represents only a fraction of the cost of the service rendered, and, in addition, tuition for needy students may be reduced or eliminated through scholarship aid.

With the prospects of continued long-term inflation and very high personal income taxes, private colleges face a difficult time even in maintaining their present financial position, i.e., having endowment income cover their present percentage of total costs. Private colleges have thus far met this problem by increasing tuition and other charges. Of course, higher tuition charges create other problems, such as reducing the number of potential applicants and increasing the demand for scholarship funds for needy students. As a result, private colleges are continually re-examining their bases for charges in order to find a better method.

Offered here is a new method of charging for tuition. It is suggested not so much in the hope that it will prove to be the ultimate solution but in the hope that this approach may stimulate others to devise better methods, some one of which might provide a practical solution for the colleges.

It has been demonstrated that college education has substantial value to the recipient both in terms of higher lifetime earnings and other benefits. With this in mind, why not relate the charge for the education either to its cost or to an individual's lifetime earnings? A college might offer students three alternatives:

1. Tuition based on the gross cost to the college of supplying the education. (This would be computed without giving any credit for endowment income. Thus, annual tuition of, say,

Mr. Peters is Financial Vice-president of the Continental Oil Company, Houston, Texas. He is the son of a college professor, and many members of his family are in educational work.

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$1,000 a year might be increased to, say, $2,500 a year.) If an individual followed this method of payment, he would have no further obligation to his college.

2. An individual might elect to pay the currently stated tuition of, say, $1,000 a year and contract to pay his college, say, 1 per cent of his earnings from the time he became productive until age 65.

3. For individuals financially unable to elect No. 1 or No. 2, tuition would be free, provided the individual contracted to pay, say, 2 per cent of his earnings up to the age 65.

Note that options 2 and 3 would be in the form of legal, binding obligations. As a suggestion, some agency such as the College Entrance Examination Board might act as collection agency for all private colleges and graduate schools. Thus, a man who went to college "A" and graduate school "B" would, each year, provide the "College Payment Board" with a certified copy of his federal income tax return and a check for what he owed these two colleges by May 1 of the following year. The "College Payment Board" would be instructed to collect all monies owed it.

Since most individuals would probably elect alternative 2 or 3 above, the private colleges would immediately have a substantial economic interest in the success of the graduates. This might well tend to encourage the colleges to provide stronger and better training because their future income would depend in considerable measure on the ultimate economic success of their graduates.

There is no reason why the percentages in options 2 and 3 need be the same for all colleges. If any college wanted to charge a higher or lower percentage, it might do so.

A Good Time To Start

With the tremendous competition among able students for places in good private universities, such a system probably could be undertaken now with a minimum of dislocation. Admittedly, its introduction would discourage some students who are now candidates for admission at many of the better known private colleges and universities. But this should be no problem now, when there are several reasonably well-qualified candidates for every available place.

The percentage contractual arrangement would tend to protect the private college against the effects of long-term inflation because each college would have the incoming revenue from its graduates payable in terms of a percentage of each year's earnings

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which, in turn, presumably would be directly related to the cost of living. To the extent that any students elected to pay the full gross cost (alternative 1), the college would have available funds in the amount of, say, $1,500 a year (actually the amount would be one student's proportionate share of the college's endowment income for one year). This sum the college could use to add to its endowment or to improve or enlarge its physical facilities. By adding to its endowment or improving its plant, the college would strengthen its basic long-term situation.

Alumni Fund Raising

When this arrangement had been in effect long enough (about 50 years) so that all graduates had paid for their education in this manner, each private college should then be able to dispense with its customary alumni fund activity, since most alumni would be contractually obligated to make annual payments for their educations under alternatives 2 or 3. At present, alumni giving to private institutions comes from roughly one-fourth to one-half of the graduates, with most of the donations coming from the comparatively few who sense keenly their implied moral obligation. Similarly, the alumni fund-giving activity, which is purely on a voluntary basis at present, requires large amounts of effort, without compensation, by a number of dedicated graduates, most of whom could profitably devote their time to the furtherance of their businesses or to other civic or community activities.

Obviously, some way would have to be found to make the contractual obligations to the colleges deductible for an individual's income tax return. Doubtless, legislation in this regard would be desirable and, with the interest on high quality education today, perhaps it could be obtained. A possibility in the meantime might be to have a student sign a note for his tuition. This note would have a large face amount. Interest on the note would be payable only as and if earned and only to the extent of the specified percentage of any individual's earnings agreed to in his contract. If the principal amount of the note had not been liquidated by age 65, the obligation would then cease to be collectible.

Incentives to Professors

The proposals here outlined should enable any college or university to offer attractive incentives to professors if the professors could, in turn, attract students. Just to be extreme, college "C" might elect to specialize in,

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say, oil geology and hire some of the country's leading oil geologists at pay scales approaching their existing levels of compensation. With this outstanding faculty, this college would doubtlessly attract most of the able students who wanted to become outstanding oil geologists – probably for undergraduate work, certainly at the graduate level. In order to finance the development of this preeminent but expensive department, college "C" might well have to charge an undergraduate fee of, say, 3 per cent of earnings and a graduate fee of, say, 4 per cent of earnings. However, training of this character should be highly attractive to potential students even at these tuition fees. Competent graduates of this institution could certainly command premium salaries. Similarly, any college could elect to specialize in any chosen area and charge an amount calculated to pay out its investment in professorial talent.

Objections Considered

It is recognized that some objections may be raised against this plan – that it may have disadvantages which ought to be considered:

1. *Many experienced scholars and educators will react unfavorably to any fee system such as this, which places so direct an emphasis on the earning power of its graduates. Our best colleges and universities have long prided themselves, and properly so, on turning out more than their share of teachers, philosophers, ministers, writers, musicians, and others, who have not been particularly successful in a monetary sense but who have contributed enormously to the culture of the country. Therefore, the charge will be made against this approach that it will encourage colleges to admit and train "only business executives, and the like."*

There is no question that the proposed system of tuition would encourage all colleges to offer courses in areas likely to produce good incomes. Greek and philosophy, for example, might thus suffer at the expense, say, of nuclear physics. However, this situation also exists today, though it may be somewhat disguised. Consciously or unconsciously, all universities want to turn out enough graduates of high earning potential, so that the alumni fund giving and bequests from these high earners will enable the university to provide its full share of cultural subjects to the next generation. Without such gifts and bequests, Greek and philosophy ultimately could suffer at the expense of the more practical courses.

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2. *Any method which directly or indirectly raises the fees charged by private colleges will encourage some students to choose a tax supported institution instead of a private one. This might encourage some of the most able students to desert private colleges.*

Clearly, it would be incumbent upon the private institutions to use this new fee schedule in a way to improve the quality of their educational products. It would seem that if the quality of the product were demonstrably better than that of the tax supported institutions, the private colleges could maintain their facilities at capacity. In this area of government versus private education, it could be argued that once the college education became readily available on a "nothing down—pay as you earn" basis, the taxpayers might take cognizance of the fact that less than half of the children of college age attend any college.

If this were to happen, the voters might feel justified in favoring a reduction of the subsidy to state supported schools. As a matter of fact, they might even encourage the state universities to convert their tuition charges to the general plan proposed here. The reason customarily given for the low fees of public educational institutions is that "no resident of this state must be deprived of an opportunity to obtain a college education." This thinking has led to highly subsidized education for all students who use state institutions. Any trend which ultimately led to less state subsidy for higher education should work toward having more students select private colleges.

3. *Alumni might not honor their contractual obligations.*

Indeed, this is a possibility. However, people are increasingly accustomed to purchasing a wide range of articles on time payments. Why not treat education on a similar basis? In essence, this suggestion represents a combination of ability to pay (widely used in setting medical fees) with "time payments."

4. *This arrangement might cause inequities in faculty salaries.*

The situation, of course, exists today. Pressure of competition from other sources has caused colleges to pay higher salaries for certain teaching skills much in demand in other areas, notably medicine and law. In addition, many colleges have encouraged or allowed faculty members to do consulting work as a source of additional remuneration, particularly for those whose skills lie in technical or scientific fields. Much as some faculty members may deplore a disparity in salary levels for certain teaching skills, this is

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a result of the operation of the law of supply and demand. Perhaps the day may come when a professor of philosophy or of Greek may command a higher salary than a professor of surgery, but that clearly is not the case today. Other industries have dealt with differentials in compensation for different skills and, presumably, the colleges can successfully meet this problem also.

5. *Colleges need cash now. They cannot wait years for the income.*

It would, of course, take years for the full financial effects of any pay-later tuition scheme to provide the colleges with a reasonable flow of cash. The colleges have an immediate financial problem; they need money NOW. Perhaps this problem could be solved by having the colleges sell their student receivables to life insurance companies or other financial institutions, or borrow against them from life insurance companies. Such institutions are in the business of taking actuarial risks and of loaning money. If this could be worked out, the life insurance companies could then make immediate cash payment to the colleges for at least a large part of the receivables. Admittedly, some of the regulations governing life insurance company investments might have to be modified slightly. However, on a proper actuarial basis, the life insurance companies should be able to create a suitable investment medium out of such "educational contracts."

This same method of charging for educational services might be adaptable to private secondary schools. However, in this area, the percentage of earnings more properly could apply to the parent of the child rather than to the child. Also, a minor would not have the legal ability to contract for a percentage of his earnings. • • •

IDEAS ON LIBERTY

Education

BECAUSE I am opposed to compulsory government education, there are those who accuse me of being opposed to education itself. This is the deduction of a confused mind. It is as though they accused me of being opposed to religion because I am opposed to a compulsory religion or a state religion. It is as though they accused me of being opposed to the eating of food because I am opposed to government crop controls.

DEAN RUSSELL, as paraphrased from Frederic Bastiat's *The Law.*

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A question for those who deplore the inordinate growth of federal power:

Are Municipalities EXPLOITING FEDERAL EXTRAVAGANCE?

THE LATEST ISSUE of the *United States Municipal News* – which is published by the U.S. Conference of Mayors, came to hand during the week.

It reprinted a summary of resolutions adopted by the 1958 Annual Conference of Mayors which provides – to our mind – a sad commentary upon the state of local government.

This municipal organization seems to be functioning entirely as a shakedown group, which is unconcerned about its own surrender of local rights and local responsibilities so long as it can grab off a few, or sometimes a great many dollars in federal funds.

Here is an agency which quotes as a credo Alexis de Tocqueville's: "Municipal institutions constitute the strength of free nations."

But what does it say in its resolutions? What are the municipal institutions – upon which our strength rests – doing to meet their problems?

Check this digest of resolutions as reported by the Conference of Mayors:

URBAN REDEVELOPMENT: "That the President be urged....That the Banking and Currency committees of the Senate and House be requested ..."

AIRPORTS: "That the 86th Congress be urgently requested..."

PUBLIC TRANSIT: "That Congress be urged ..."

TAXES: "That Congress be urged ..." (Nothing about reducing them.)

DEPRESSED AREAS: "That Congress be urged ..."

INTERGOVERNMENTAL RELATIONS: "That the Committee on Government Operations of the House of Representatives be urged ...That the Administration be requested ..."

JUVENILE DELINQUENCY: "That the Congress be urged ..."

From *The New Haven Register*, October 12, 1958.

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HOSPITALS AND MEDICAL FACILITIES: "That Congress be urged to amend . . ."

CIVIL DEFENSE: "That the Congress be requested . . ."

STREETS, HIGHWAYS, AND TRAFFIC: "That State Highway Departments be urged . . . That the Federal Government establish . . ."

Looking at this compendium of buck-passing, issue-dodging recommendations, it is quite easy to believe that our American cities — if this sort of sponsorship continues in the U.S. Conference of Mayors — may eventually be captured by an interlocking bureaucracy of municipal and federal fund jugglers who will completely outflank and override whatever citizens and voters still want to run their own cities in their own democratic local way.

At a time when serious students of American government are deeply concerned about the over-centralization of power in Washington, it is distressing to see this sort of political exploitation — at the municipal level — of big government's extravagance and of big government's willingness to shoulder any burden no matter how unrealistic its programs may be.

The mayors obviously find it easy to pass resolutions which throw upon Congress or the Administration the difficulties of city government — but they serve neither their cities nor their citizens when they take this easy way out. • • •

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Aid that Alienates

INTELLECTUALS are supposed to be able to think. But it becomes increasingly apparent these days that our intellectuals aren't thinkers and that our thinkers lack the status and influence of intellectuals. Thus our society is bereft of the use of brains.

This paradoxical state of affairs is brought into sharp outline in a symposium on "culture contact in undeveloped countries" which has been edited by James W. Wiggins and Helmut Schoeck and published under the title of *Foreign Aid Reexamined: A Critical Appraisal* (Public Affairs Press, 250 pp., $5.00). The intellectuals represented in this volume are, of course, thinkers. But they constitute a very small minority of their breed, and the fact that they are almost without influence or authority only serves to reinforce the general rule to which they are notable exceptions.

The main point made by most of the contributors to this symposium, which was held in 1957 on the campus of Emory University in Atlanta, Georgia, under the auspices of the local Department of Sociology and Anthropology, is that an economic system exists within the context of a culture and that you can't change one without changing the other. Our dominant intellectuals, however, persist in thinking that economic and technological changes stand quite apart from cultural and ideological factors. They are sublimely unaware that progress, as the West has known it, depends on multicentered social systems in which voluntary

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action is the rule, not the exception. This idea, which is the only thing worth exporting, is left hidden at the back of the closet.

As the contributors to *Foreign Aid Reexamined* make plain, most of our intellectuals who pass for being thinkers are engaged in promoting a two-way hara-kiri. They are trying to export a high technology and a system of economic plenty to countries like India which show no signs of realizing that freedom from the dictation of government must come before, not after, freedom from want. And, in their zeal for "doing good" without regard to the circumstances in which "good" is to operate, they are hacking away vigorously at the very roots of the system which created Western technology and economic plenty in the first place. The Indians take our largess and feed it into bureaucratic hands which effectively prevent a free productive system from emerging. As for what happens at home in America, our charities become engines of compulsion. Bureaucracies are created to process and forward the compulsory "take," and it is not long before these bureaucracies have proliferated according to Parkinson's well-known law. Meanwhile, our money system is progressively debauched as inflation is invoked to keep a taxed people and a tortured economic system from collapse. We become more like India. But India doesn't become more like us.

The Church and the State

In a paper called "Historical Perspective," which leads the symposium, Professor J. Fred Rippy of the University of Chicago notes that the separation of Church and State disappears as compulsory benevolence, supported by church councils, is substituted for private charity. In backing our foreign aid programs, our clergy departs from one of the fundamental precepts of Christianity which once insisted that the giver be the keeper of his own moral conscience. There is no love, no ennoblement of the giver, when the money is extorted from him by vote of a majority. Moreover, the responsibility that goes with individual judgment disappears.

Elgin Groseclose, questioning the vitality of a "diplomacy of altruism," notes that government-to-government giving tends to "identify the State with the totality of social life," which is a fascist and communist concept. The "altruism" (if you can list compulsory giving or lending as such) defeats its purposes for reasons that were well known to Shakespeare, who remarked that loan oft loses both itself and

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friend. Mr. Groseclose, a Middle East expert, says our aid to Turkey, which went into the subsidization of tractor farming, created too much development, too fast. The tractors were bought and the wooden plows were destroyed. But, to keep the tractors going, the farmers had suddenly to produce a surplus in order to buy gasoline and pay for tractor repair. This, in turn, meant a revamping of the road system so that the crops could move to the ports. Competition for foreign markets ran head-on into the fact that the United States, which had supplied the money for the tractors, had its own surplus of crops which it couldn't sell at a profit. The net result? "After ten years of foreign aid," says Mr. Groseclose, "Turkey is no nearer a self-sufficient economy than ever."

The Aid Goes to Planners

Several contributors to the symposium – Helmut Schoeck and Professor Rippy are among them – note that foreign aid is mostly used by the recipients to "finance the political careers of a marginal intellectual minority." Motivated primarily by envy, this minority is committed against capitalism. Thus nations are saddled with "planners" whose educational background is largely socialistic and Fabian. Nehru of India, for example, absorbed his view of politics from Englishmen of the Shaw-Wells generation who believed in taking industry away from the industrialists. And as Professor Schoeck puts it, the intellectuals who have presided over the birth of the Indonesian and Ghana nations also "received their education in Western schools during the time between two World Wars when academic socialism had not yet faced certain experiences of the years 1945-1958." This "cultural lag" has enabled "socialism to have a revival in countries which can least afford it."

The People Resent It

In his famous Point Four, President Harry Truman outlined a "bold new program" for exporting technical know-how to undeveloped nations. But do we need to use government funds, government personnel, and government power to export Point Four to Latin America, for example? William S. Stokes, in a remarkable paper called "The Drag of the Pensadores," argues that Latin American leaders have all along been able to have our technological know-how for the asking. All they have to do is to visit the U.S. or to make use of our libraries or to send their graduate students to North American universities.

In cold fact, however, the Latin

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American intellectuals – the "pensadores" – don't want "Yanqui" or "gringo" culture even if it comes on a silver platter. As Mr. Stokes phrases it, they prefer gracious living in their own Hispanic style. They look down on our technology, regarding a preoccupation with the machine as barbarian. They share the general Spanish and Portuguese idea that "leisure ennobles and labor, especially technical labor, degrades." If they have to work, they prefer employment as lawyers, doctors, authors, or university professors, not as entrepreneurs or technical experts. If they have money to invest, they tend to put it into land or apartment houses (the collection of rents is considered a gentlemanly occupation). And when it comes to spending, they like to indulge in an "ostentatious use of leisure (travel, patronage of the arts, conspicuous consumption)," all of which has "maximum social status."

With such "pensadores" creating the climate of opinion throughout Latin America, nobody is going to get excited about the technology of steel mills or oil drilling. Better to let the gringo build the mill or sink the oil well and then take 50 or 60 per cent of the profits. If the gringo objects to sharing too much profit, the government can always expropriate the works and hire foreign technicians to operate them.

Our Burdensome Debt

Elgin Groseclose reports that the U.S. has put 70 billion dollars, which amounts to 25 per cent of the national debt, into foreign aid within the span of a decade. Elsewhere in this volume (see Mr. Stokes) the figure is put at $99 billion for the period "from July 1, 1940, to June 30, 1956." No matter how one measures it, the foreign aid figure has saddled Americans with the largest per capita debt of any large country in the world.

The inflationary impact of this debt must be beyond computation. Many a budget could have been balanced over the past decade if foreign aid had been limited to military assistance to such tough and willing allies as the Turks and South Koreans. With budgets in balance, there would have been considerably less debt to be "monetized." Taxes would have been

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lower, "disposable" income greater. And the American price level would not have strained for the roof.

Wasting Our Substance

Would this have weakened the U.S. vis-a-vis the Soviet Union? In a paper which invokes the shade of William Graham Sumner, who contemptuously dismissed the Spanish-American War as proof of "the conquest of the United States by Spain" (meaning that we had gone over to the ideas which had brought Spain low), Professor George Peter Murdock of Yale says our foreign aid has actually sapped the vitality of the so-called free world. Professor Murdock speaks of "the Byzantine Conquest of the United States." He recalls that Byzantium tried to buy allies with money. Meanwhile, she neglected her own military power. In the time of her extremity, the "allies" of Byzantium turned "neutral." And Byzantium herself, a hollow shell because of the long squandering of her resources, lacked the military and economic strength to go it alone.

"Somehow," says Professor Murdock, "as a model for contemporary national policy, Byzantium seems scarcely preferable to Spain."

If foreign aid could be terminated within the foreseeable future, the U.S. might have the resilience to stand the drain. But the contributors to this symposium do not see how the U.S. is to get out from under. Too many jobs, too many vested interests, are involved. Says James W. Wiggins, in summing up: "No unusual insight is required to decide that the donor will be blamed for the withdrawal of his benevolence." With our softheaded hunger to be universally loved, can we, as a nation, ever cut clean? One wonders. • • •

Keynes refuted!
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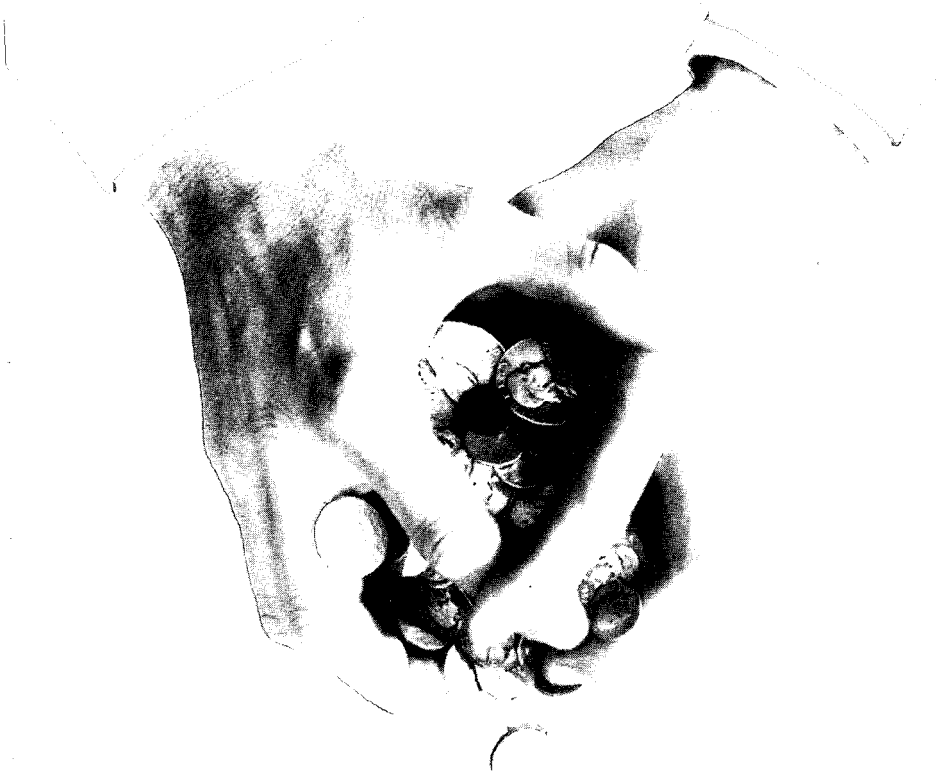

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